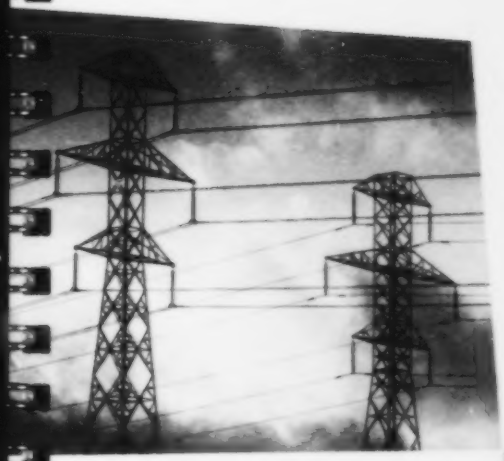
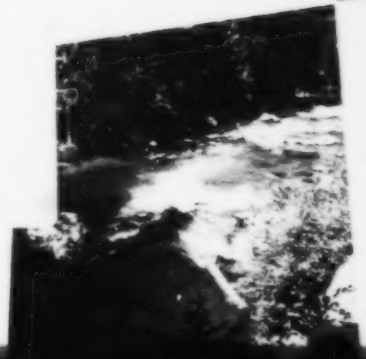
Building Value, Creating Opportunities



British Columbia Transmission CORPORATION™

2005 Annual Report

April 1, 2004 – March 31, 2005



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Building Value, Creating Opportunities

British Columbia Transmission Corporation (BCTC) has an unwavering focus on managing the transmission system to exacting standards and growing it to meet customer needs now and in the future. This creates opportunities for the electricity industry and ensures British Columbians continue to have safe and reliable power.

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Highlights

BCTC made significant strides in Fiscal 2005:

- Filed our first Transmission System Capital Plan with the British Columbia Utilities Commission (BCUC). This plan details $2.8 billion in capital investments over the next 10 years, including $1.3 billion of sustainment investment to ensure BC's electricity grid continues to operate at optimal performance, and $1.5 billion of expansion investment to meet the future needs of customers.
- Improved our service to customers by streamlining business processes and reducing the queue of customers waiting for long-term transmission studies from 35 to a low of one in the year.
- Recognized for the "successful operation of a very large and geographically dispersed transmission system" in an audit conducted by the Western Electric Coordinating Council (WECC), the industry's regional electric reliability organization.
- Designed an innovative Open Access Transmission Tariff with input from stakeholders. This new tariff helps BCTC support the objectives of the government's *Energy Plan*, facilitating opportunities for private power generation and providing choices for large customers in British Columbia.
- Implemented the first phase of a world-class Asset Management Program for the transmission system, which allows BCTC to optimize the cost and lifecycle of transmission assets, while maintaining or improving the current level of reliability. As a result of implementing these new asset management practices, a reduction in the capital budget of $18 million was identified last year.
- Consulted extensively with stakeholders and First Nations on transmission planning policy and projects, holding more than 60 workshops and information sessions throughout the year.
- Filed and received approval from the BCUC on the System Control Modernization Project. Consolidating control centres will increase reliability, strengthen the physical and cyber security of the electricity grid and reduce technology costs.
- Received the Canadian Electricity Association President's award in recognition of our safety performance.
- Received a United Way Quantum Leap award for outstanding employee participation in the 2004 workplace campaign.

FINANCIAL HIGHLIGHTS	For the year ended Mar 31	From incorporation date of May 2, 2003 to Mar 31
($ in thousands)	2005	2004
Income Statement		
Operations, maintenance and administration expenses	71,579	35,724
Net income	3,382	927
Cash Flow Statement		
Capital asset expenditures	13,808	60,452
Balance Sheet		
Total assets	91,999	68,464
Long-term debt	30,191	–
Shareholder's equity	24,309	20,927

Message from the Chair

On behalf of the Board of Directors and the employees of British Columbia Transmission Corporation, I am pleased to present our Annual Report for the year April 1, 2004 to March 31, 2005 (Fiscal 2005).

During our second year of fiscal operations, we continued our evolution to a fully independent Crown corporation responsible for operating, maintaining and planning BC Hydro's transmission system. In just over two years, we have transitioned our organization from a financially integrated line of business within BC Hydro to a financially separate, fully independent transmission company that is creating opportunities and delivering value for the province.

Our organization has worked diligently to meet or exceed key performance targets and build a strong operational foundation, managing the grid to exacting standards and ensuring British Columbians continue to enjoy safe and reliable power.

Under the government's *Energy for Our Future: A Plan for BC*, BCTC is a critical component of maintaining and growing a strong and progressive electricity sector in BC. We are committed to bringing British Columbians safe, reliable and cost-effective transmission service, timely expansion of the grid, private investment in new electricity supply and continued access to export markets. To achieve these goals, BCTC's Board of Directors and executive team continue to set challenging objectives and performance measures.

Maximizing the value of the electricity grid is a key initiative of BCTC. Last year, we led North America by completing an independent audit of the health of the transmission system and implementing a new asset management system. In 2005, we began to realize the benefits of this world-class program by allocating spending more effectively, and further reducing or deferring previously planned capital expenditures by $18 million.

We also focused on improving service to our customers, streamlining our business practices and putting our customers' requirements front-and-centre in all we do. We accomplished this while meeting increasing requests for transmission services. In Fiscal 2005, BC Hydro and our other transmission customers submitted more than 170,000 requests for transmission services, resulting in 133,000 electricity trade transactions – this represents a 14 per cent increase in activity over the previous year.

During the year, we listened carefully to stakeholders and First Nations across the province about resource use and management, and environmental responsibility. BCTC remains committed to operating, maintaining and planning BC's transmission system in a manner that is socially, environmentally and fiscally responsible.

A major accomplishment for BCTC last year was the development of an innovative new Open Access Transmission Tariff, which offers a suite of services for independent power producers (IPPs) and other potential customers, helping to create opportunities for them both in and outside our province. After an extensive public review process, a decision on the proposed tariff is expected by the British Columbia Utilities Commission in summer 2005.

We have already received approval from the British Columbia Utilities Commission on BCTC's 10-year Capital Plan, the province's first public transmission-focused planning document that outlines a 10-year, $2.8 billion investment program in our transmission grid. Our efforts in rigorously developing a forward-thinking plan ensure our transmission system will be ready to meet the challenges of tomorrow. Also, in early 2005, we received approval from the British Columbia Utilities Commission on the System Control Modernization Project – a $134 million initiative that will increase the security and reliability of the provincial electricity grid.

As a Crown corporation subject to regulatory oversight by the British Columbia Utilities Commission, we have a commitment to engage the public in discussions around transmission planning. To do so, we must meet the challenge of balancing local community interests with our continuing obligation to provide safe, reliable and low-cost power for all ratepayers in BC. The Vancouver Island Transmission Reinforcement Project is an example of this challenge. This project proposes to replace and upgrade existing transmission facilities that provide electricity supply to Vancouver Island. Over the next year, we will continue to work with our stakeholders to identify the solutions that will address today's needs and tomorrow's system requirements.

After an extensive search process in 2004, the Board is pleased to have named Jane Peverett, BCTC's former Chief Financial Officer, as the new President and Chief Executive Officer. As well, the Board of Directors would like to recognize Michael Costello for his outstanding contributions and leadership in launching BCTC.

In our second year, we've been able to demonstrate how BCTC is building value and creating opportunities for customers, stakeholders and the people of British Columbia. On behalf of everyone at BCTC, we thank you for the confidence you've entrusted in us, and we look forward to continuing to bring benefits to British Columbia.

The Fiscal 2005 British Columbia Transmission Corporation Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of this report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of BCTC for the twelve months ended March 31, 2005. All significant decisions, events and identified risks, as of May 6, 2005, have been considered in preparing this report. The information presented is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance.

R.T.F. (Bob) Reid, Chair of the Board

Our Strategic Foundation

Electricity is moved through the province using an interconnected system of approximately 18,000 kilometres of high voltage power lines, underground cables, transmission towers, submarine cables and related substations. Regulated by the British Columbia Utilities Commission (BCUC), BCTC operates this electricity grid independent of all other power producers and transmission customers.

OUR MANDATE

BCTC is a provincial Crown corporation incorporated under *the British Columbia Company Act* on May 2, 2003. In August 2003, BCTC assumed responsibility for operating, planning and managing BC Hydro's high-voltage electric transmission grid.

Under the direction of the *Transmission Corporation Act* and through a series of designated agreements between BCTC and BC Hydro, respective roles and responsibilities were established.

BCTC has an 11-member Board of Directors, appointed by the Province of British Columbia. BCTC reports to government through the Minister of Energy and Mines.

Our key responsibilities include:

- Operating the transmission grid
- Administering a wholesale transmission service tariff for transmission services
- Providing interconnection services for transmission customers
- Managing and maintaining the transmission system assets
- Planning new investments in the transmission system

OUR MISSION

We are BC's independent electric transmission company, ensuring fair and open access to the grid and creating value and new opportunities for our customers and stakeholders by providing safe, reliable and cost-effective transmission services.

OUR VISION

As an independent electric transmission company, we are globally recognized for our innovative and sustainable approach to serving our customers.

OUR VALUES

Living our values is central to BCTC's success and reputation. We believe that:

Being **Open and Responsive** means we share information proactively, seek and respond to feedback and invest in understanding the needs of our customers and stakeholders.

Honesty and Integrity guides all that we do in that we say what we mean, do what we say and treat all parties fairly and with respect.

Being **Accountable** is fundamental to fulfilling our mandate. We take responsibility for our actions, encourage diverse opinions and support decisions once made. We set clear objectives and accept responsibility for their achievement and pursue opportunities to increase our individual knowledge of our business.

Innovation adds value and enables BCTC to meet the needs of stakeholders by valuing creativity, continuously seeking ways to improve, setting high performance objectives and understanding and effectively managing risk.

Incorporating the principles of **Sustainability** into our business allows us to make better decisions and manage the business with both today and tomorrow in mind. We employ the best people, respect their diverse skills, experience and background, and invest in their future with us. We respect the natural environment, work safely and encourage balance among home life, work and community involvement.

WHO WE SERVE

BCTC works with all eligible transmission customers to ensure open, non-discriminatory access to the transmission system. In addition to our largest customer, BC Hydro, BCTC has more than 20 customers who take advantage of our wholesale transmission services.

Customers either request transmission service to accommodate the electricity requirements in British Columbia, or to export or import power through transmission interties with Alberta and the US. BCTC dispatches generation, schedules imports and exports in real-time to ensure reliable access to the integrated BC transmission system.

BCTC also provides opportunities for independent power producers (IPPs) — privately owned power generators which can be connected to the transmission system to supply electricity for domestic or export markets. We work with IPPs as their projects advance, to address and facilitate their interconnection needs as they become ready to access the high-voltage electricity grid.

Overview

ALIGNED WITH THE BC GOVERNMENT STRATEGIC PLAN

The *Provincial Government Strategic Plan* sets out the government's long-term vision for the province. BCTC's objectives and activities support the province's overriding goals of economic growth, a supportive social fabric and healthy communities and environment.

The provincial energy plan, *Energy for Our Future: A Plan for BC (2002)*, is aligned with the *Strategic Plan's* economic growth goal. This plan sets out the government's vision for the energy sector's contribution to BC. The creation of BCTC, a 100% government-owned Crown corporation, supports the four key policy objectives of the *Energy Plan:*

- Low electricity rates and public ownership of BC Hydro
- More private sector opportunities
- Secure, reliable supply
- Environmental responsibility and no nuclear power

We are BC's independent electric transmission company, ensuring fair and open access to the grid and creating value and new opportunities for our customers and stakeholders by providing safe, reliable and cost-effective transmission. BCTC serves the domestic electricity market and facilitates trade, contributing to the *Energy Plan* objectives through:

- Excellence in the operation, maintenance and planning of BC's transmission system
- Continuous improvements to system reliability
- Commitment to safe, reliable, low-cost service
- Planning and constructing significant investment in the transmission system to meet customer needs, now and in the future
- Facilitating growth in BC's electric power sector by offering transmission access for generators and large users

BCTC provides an exclusive focus on the electric transmission system in BC. Our independence facilitates a more robust electricity industry and contributes to maintaining BC's energy-cost competitive advantage in the production of goods and services.

During our first 20 months of operation BCTC managed the transmission system on behalf of BC Hydro for a fee. Effective April 1, 2005, we collect revenues under our own transmission tariff.

INTERNAL BUSINESS STRUCTURE

BCTC's activities and services are delivered by 325 employees spread among four business functions.

System Operations, comprised of a total of 149 employees, manages the day-to-day, safe, efficient and reliable operation of the transmission system and facilitates the fair and open access to the transmission grid for all customers. There are six control centre facilities: one system control centre (Burnaby); four area control centres (Vernon, Duncan, Burnaby, Prince George) and one telecommunication operation centre (Burnaby). System Operations is comprised of two groups: Real-Time Operations and Market Operations.

Market Operations, comprised of 15 employees, is responsible for administering the wholesale transmission services tariff and the transmission interconnection process.

System Planning & Asset Management, has 46 employees, who are responsible for defining and implementing the asset program that ensures the performance and health of the transmission assets. Asset Management is comprised of three groups: Asset Program Definition; Asset Program Management; Asset Performance & Quality Assurance.

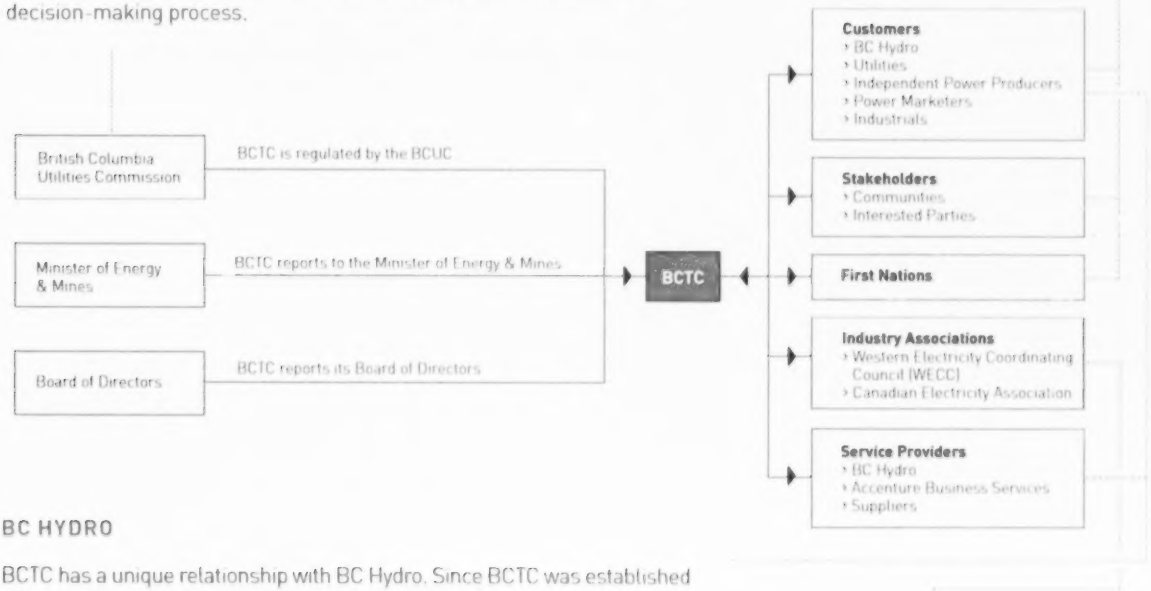
System Planning & Performance Assessment, comprised of 39 employees, is responsible for planning and designing the transmission system. This group conducts long-term planning studies and analysis to determine enhancements to meet the growing and changing demands of our customers.

BCTC also has a range of **corporate** functions that are conducted by 76 employees. These functions include: finance; audit; treasury; supply chain management; regulatory affairs; strategy development; communications and stakeholder relations; information technology; human resources and legal services.

Key Relationships

BCUC

BCTC is regulated by the British Columbia Utilities Commission (BCUC) and seeks approval from the BCUC for transmission system capital investments, revenue requirements and the terms and rates for transmission services. BCUC's hearing process provides a forum for public involvement in its decision-making process.



BC HYDRO

BCTC has a unique relationship with BC Hydro. Since BCTC was established in 2003, BCTC and BC Hydro have transitioned from two financially consolidated entities to two financially independent Crown corporations.

Now BC Hydro is simultaneously our biggest customer and largest service provider. The relationship between BCTC and BC Hydro is defined in large part by six agreements designated by the Lieutenant Governor in Council. These agreements specify the roles and responsibilities that each party is to perform in respect of the BC Hydro electric system and activities related to that system.

These roles and responsibilities are further defined by service level agreements.

These agreements cover the provision of services between the two companies. In the areas where one utility is providing services to the other, the service level agreements establish the terms and conditions of that provision, and in so doing create a solid foundation for the working relationship between the two companies.

While the operational independence of BCTC is ensured by these arrangements, BCTC and BC Hydro participate in each others' long-term planning processes to ensure low-cost, secure, reliable energy in BC.

FIRST NATIONS, STAKEHOLDERS AND CUSTOMERS

Through its stakeholder relations and market operations initiatives, BCTC engages in an open dialogue with First Nations, stakeholders and customers to develop a shared understanding that will facilitate open and transparent decision-making.

WESTERN ELECTRICITY COORDINATING COUNCIL

BCTC is a member of the Western Electricity Coordinating Council (WECC). This industry association is responsible for coordinating and promoting electric system reliability in a territory that extends from Canada to Mexico and includes BC, Alberta and all or portions of 14 western states in the US. Our membership in WECC facilitates coordinated system operation and supports competitive power markets by facilitating non-discriminatory access amongst members.

Grid Facts

As electricity transmission specialists, we have a concentrated focus on building and maintaining a safe, reliable and cost-effective power grid.

WHAT IS THE GRID?

The grid is the electric transmission system consisting of more than 18,000 kilometres of transmission lines, operating at voltages from 69kV to 500kV. BC's transmission grid crosses over 75,000 hectares and incorporates:

- 18,280 kms of high-voltage line
  (17,830 kms of overhead lines, 150 kms of underground cables, 300 kms of submarine cables)
- 20,500 steel towers
- 75,000 wood poles
- 260 substations

Electricity is supplied to the Lower Mainland and Vancouver Island primarily from the Peace River hydroelectric system through Kelly Lake Substation, near Cache Creek, and from the Columbia River system through Nicola Substation, near Merritt. The relationship between generation facilities and electrical demand around the province drives how BC's grid is managed and developed.

We operate the electricity grid so that at any time, even during peak load periods, the system can withstand an outage of any single transmission line without loss of electrical load.

OUR LINK TO OPPORTUNITY

BC's grid has been linked to Alberta and the Northwestern United States for over three decades. It is currently connected to Alberta through two 138kV lines and one 500kV line, and to the United States through two 500kV lines and two 230kV lines. Electricity trade represents an important source of revenue for British Columbia. It also strengthens reliability of supply by providing the flexibility to buy power on the market during low water years to help support reservoir levels. BCTC will work closely with other jurisdictions to ensure that trade opportunities continue to be available, while ensuring that BC's sovereignty is protected at all times.

Report on Performance

This Annual Report uses the performance measures contained in our second Service Plan (2005/06 – 2007/08) to report performance in Fiscal 2005.

The Report on Performance presents BCTC's four strategic goals and related performance measures and results for Fiscal 2005 under three themes:

THEME 1 Serving Our Customers and Stakeholders

THEME 2 Safe, Reliable Transmission System

THEME 3 High Performance Workplace

REFINING OUR STRATEGY

BCTC developed its initial corporate strategy following its establishment in August 2003. This strategy was detailed in our first Service Plan (2004/05 – 2006/07) published in February 2004. As BCTC was starting up as a new independent Crown corporation, our goals, objectives and measures were at that time focused on start-up activities and on defining our role within BC's electricity industry.

Since the development of that initial Service Plan, our organization is more firmly established and we have gained a better understanding of our customer, stakeholder and shareholder expectations. As a result, we have been able to redefine our goals, objectives and measures. Through this process, we have articulated a strategy that links our success to the cornerstones of *Energy for Our Future: A Plan for BC*, the province's energy plan. Our strategic plan was approved by BCTC's Board in April 2004 and set out in our second Service Plan (2005/06 – 2007/08) published in February 2005.

Moving forward, further refinements to the measures and targets are expected for Fiscal 2006. We will revisit our corporate strategy regularly and may refine our stated objectives.

SOURCES OF RESULTS AND TARGETS

BCTC's performance measure data is sourced from a variety of internal information systems and surveys undertaken by third parties. All financial information is from BCTC's audited financial results. Environmental and safety results are captured through BCTC's reporting procedures in these areas. The employee and stakeholder surveys are undertaken by independent third parties. Utilization and reliability statistics are captured in BCTC's operational databases and analyzed for the purposes of internal and external reporting. Performance measure results are reported regularly throughout the year to the Executive and Board. The performance results tables present actual results and targets. Targets for Fiscal 2006 and Fiscal 2007 are as presented in BCTC's Service Plan (2005/06 – 2007/08).

Report on Performance (continued)

The tables below provide explanation of how BCTC's initial goals, objectives and measures relate to those reported in this Annual Report. The numbering of the goals is consistent with the format used in BCTC's second Service Plan (2005/06 - 2007/08).

REFINING OUR GOALS

	F2005 Goal & Objective (contained in Service Plan 2005/06 - 2007/08)	F2004 Goal & Objective (contained in Service Plan 2004/05 - 2006/07)	Explanation
THEME 2	**Goal 1:** To ensure reliability and security of the transmission system **Objective:** To meet the reliability standards of the industry in a cost-effective, safe and sustainable manner that is acceptable to our customers	Meet the energy transfer needs of our customers	Revised goal and objective are in line with intent of original - but emphasize reliability and security through explicit statement.
THEME 1	**Goal 2:** To provide customers with non-discriminatory access to transmission services by removing impediments and offering services that enhance their ability to access markets or energy providers **Objective:** To ensure that independent power producers, BC Hydro and industrial customers are satisfied in all their dealings with BCTC and value our independent, transparent and responsive business approach	Enable the new electricity market place	Revised goal and objective are in line with intent of original - but provide greater clarity and specific detail.
	Goal 3: To maintain BC sovereignty, while enhancing BC benefits from electricity trade - maintain BCTC as a crown owned company, regulated by the BCUC **Objective:** To build public and stakeholder understanding and support for BCTC as an independent transmission entity	Develop an independent business structure	Establishing BCTC as an independent entity was our primary task but the longer term objective of ensuring understanding and support from stakeholders is recognized as critical in sustaining our independence.
THEME 3	**Goal 4:** To create the "model" transmission company **Objective:** To build a stand-alone transmission company that is a model of operational and asset management excellence	Build workforce expertise and competency	Revised goal and objective broadens the scope beyond BCTC's workforce, recognizing it as one of several key components that will enable BCTC to achieve overall operational excellence.
		Focus on defining, measuring and delivering value	Delivering value to customers and stakeholders is an intrinsic component of our business model and is reflected in all of BCTC's goals and objectives.

REFINING OUR MEASURES

F2005 Measure	F2004 Measure	Explanation
Stakeholder Response	This measure remains unchanged.	
Transmission Utilization Ratio	Adequate Transmission Capacity	Adequate Transmission Capacity was originally proposed to reflect whether or not there was sufficient available transfer capacity on certain parts of the system. From a practical perspective, transmission utilization is a more measurable and understandable concept.
BCTC SAIDI (Reliability)	This measure remains unchanged.	
Compliance with NERC & WECC Reliability Management Standards	This measure is new and has been added as an adjunct to the SAIDI reliability measure, to emphasize BCTC's focus on reliability, and to link to independent third party audits.	
Operating Costs	Net Income Attributable to BCTC	Operating Costs is a clear indicator on how BCTC is performing in the efficient and effective management and operation of the transmission system.
Preventable & Reportable Environmental Incidents	Preventable Environmental Incidents	The focus for this measure is now on external reportability reflecting seriousness of impact as well as preventability.
Completion of Planned Safety & Environmental Management Programs	This measure is new and was added to further demonstrate BCTC's commitment to safety and environmentally responsible practices.	
Employee Engagement Index – Alignment	Employee Commitment Index	Employee Engagement Index is a better measure to reflect the alignment of employees with the company's goals, an important aspect of successfully establishing a new organization.
Preventable Lost Time Accidents	Preventable Injury Incidents	Preventable Lost Time Accidents is a more recognized approach to measuring safety performance, and provides more accurate data through our human resources management system.
–	Transmission Access	This measure was originally intended to capture both the level of satisfaction and the number of customers buying wholesale transmission services. The Stakeholder Response measure already captures the satisfaction element of transmission access. Since the number of customers remains relatively stable and is driven by electricity market conditions and opportunities, the number of customers is not a clear indicator of transmission access.
–	Succession/Training & Development Completed	These areas are recognized as key strategic human resources initiatives and are ongoing within BCTC. Progress on these is regularly reported to the Human Resources Committee of the Board.

Please note that detailed definitions are found on page 26 of this report in Appendix 1: Performance Measure Definitions.

Report on Performance:

Serving Our Customers and Stakeholders

GOAL To provide customers with non-discriminatory access to transmission services by removing impediments and offering services that enhance their ability to access markets or energy providers

OBJECTIVE To ensure that independent power producers, BC Hydro and industrial customers are satisfied in all their dealings with BCTC and value our independent, transparent and responsive business approach

GOAL To maintain BC sovereignty, while enhancing BC benefits from electricity trade — maintain BCTC as a crown-owned company, regulated by the BCUC

OBJECTIVE To build public and stakeholder understanding and support for BCTC as an independent transmission entity

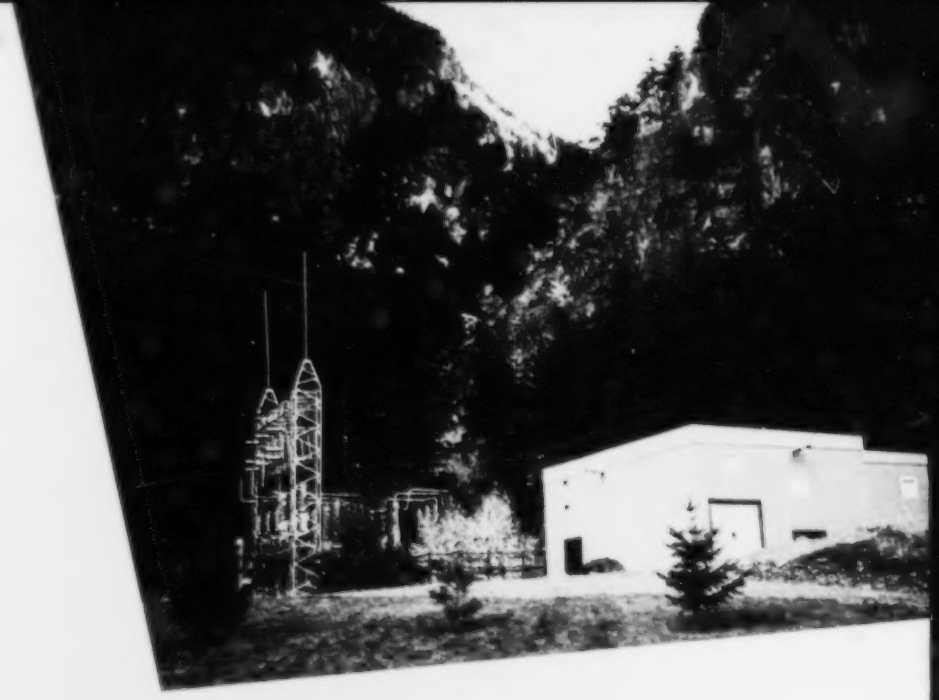
Key Strategies

1. Provide open access transmission services
2. Conduct open, visible and collaborative planning
3. Integrate stakeholder goals in planning process
4. Participate in regional market developments

Performance Measures

	F2004 Actual	F2005 Target	F2005 Actual	F2006 Target	F2007 Target
Stakeholder Satisfaction (overall positive impressions)	35%	37%	51%	5% above previous year	5% above previous year
Transmission Utilization Ratio*	68%	65%	58%	65%	65%

*Transmission Utilization Ratio is a measure of how much the available capacity on the interties with other regions (US and Alberta) is being used and purchased by BCTC's customers.



IMPORTANCE

Providing outstanding service is one of BCTC's priorities. To do this BCTC provides open and fair access to the electricity grid, and we build positive relationships with our customers and stakeholders to thoroughly understand their service needs and expectations.

PERFORMANCE HIGHLIGHTS

An annual, independently conducted survey helps us understand how BCTC is viewed by stakeholders. In terms of overall stakeholder impressions, a large percentage of our stakeholders have a very positive or positive impression of BCTC and the work we do. Fifty-one per cent of stakeholders held this view in 2005, up from 35 per cent in 2004. Considering BCTC has only been in existence for two years, this level of stakeholder confidence is encouraging.

BCTC's other performance measure for this objective – the transmission utilization ratio – indicates how much of the capacity on the BC interties with Alberta and the US was used by customers during the year. In Fiscal 2005, the utilization ratio was lower due to conditions in the US electricity markets. These market conditions resulted in a reduction in electricity trading activity by BCTC's wholesale transmission customers.

*MAJOR INITIATIVES

Some of the major initiatives launched by BCTC as part of serving our customers and building relationships with our stakeholders include:

Facilitating Market Opportunities – BCTC is responsible for ensuring open and non-discriminatory access to the transmission system. This means that we give all eligible users the same opportunities to use the transmission system. The Open Access Transmission Tariff, filed with the BCUC in August 2004, defines the anticipated rates, terms and conditions of the open access transmission service to be offered by BCTC going forward. This new tariff was developed after extensive consultations and, if approved by the BCUC, it will facilitate new opportunities for the electricity sector. Key components include:

- A proposed new rate structure, called the "BC Clean Rate" would reduce transmission costs for IPPs that use alternative energy technology, such as wind or micro hydro-powered facilities.
- A proposed new shaped service, where transmission customers can purchase firm service on portions of the system that are constrained for parts of the year. This enhances the economics of IPP projects, and provides greater certainty for financing.
- A proposed deferral credit, through which IPPs would receive credits for locating their power projects in areas that defer the need for new transmission infrastructure.
- A standardized, streamlined interconnection process for generators seeking to connect to the electricity grid.

Report on Performance:

Serving Our Customers and Stakeholders (continued)

Listening to our Stakeholders – BCTC is committed to an open and transparent consultation process that actively involves customers, stakeholders and First Nations in discussions about transmission planning and major initiatives undertaken by BCTC. By doing so, we increase our collective knowledge and understanding of transmission issues. At the same time, we ensure that the expansion and enhancement of the transmission system adequately meets the needs of our customers.

In Fiscal 2005, we led more than 60 public engagement events, workshops, information sessions and stakeholder meetings and gained a clearer understanding of the questions and concerns around the maintenance, management and planning of the transmission system. This consultation included focused discussion with stakeholders related to two major system initiatives on the transmission system: Vancouver Island Transmission Reinforcement Project and BCTC's new System Control Modernization Project. We also established a Transmission Planning Advisory Committee (TPAC), comprised of representatives from industry, provincial and local government, First Nations, and public advocacy and environmental groups. TPAC provides BCTC with advice concerning policy issues related to transmission planning.

Regional Coordinating Activities – Cooperating and coordinating with other jurisdictions is an essential part of BCTC's responsibilities. British Columbia's transmission system has been integrated within the western interconnection for over 30 years since the development of the Peace and Columbia hydroelectric dams and the signing of the *Columbia River Treaty*. Being connected to Alberta and the United States has many benefits, most importantly, regional coordination and ensuring reliability. Being connected also facilitates electricity trade that represents an important source of revenue for British Columbia and provides flexibility to buy power on the market in favourable market conditions or during low water years to help support reservoir levels. BCTC will continue to actively work with Alberta and the western United States in various regional and inter-utility operating and planning initiatives, monitoring any impacts on the BC system, and identifying opportunities for better coordination. In particular, BCTC is participating in the development of Grid West, an independent, non-profit regional transmission organization that will coordinate the operation and planning of the US Pacific Northwest transmission grid. BCTC will ensure that BC perspectives, issues and concerns are incorporated and, most importantly, the ownership, operation and control of the transmission system remains with British Columbians.

Transmission System Capital Plan – Each year BCTC files a capital plan that identifies the capital projects needed to sustain and expand the system over the next decade. The plan ensures that

we continue to provide secure and reliable transmission service. BCTC's capital planning obligations are defined in part by new sections of the *Utilities Commission Act* and BCTC's May 2004 plan was the first filed with the BCUC under that new jurisdiction.

These plans offer customers complete insight into BCTC's planning objectives, anticipated projects and priorities.

LOOKING AHEAD

In Fiscal 2006, we will continue our focus on providing excellent service to all our customers.

- Once approved by the BCUC, BCTC will implement its new Open Access Transmission Tariff, an important step towards improving transmission system access for our customers.
- The Transmission Planning Advisory Committee will continue to be an important forum for transmission planning policy discussion. BCTC works with the Committee to further explore the steps necessary to expand the transmission system to accommodate the needs of customers.
- We will continue to play a major role in regional discussions around reducing congestion, improving system reliability, and streamlining processes to move power across jurisdictions throughout the Pacific Northwest.
- We will continue extensive consultations with our customers, stakeholders and First Nations. In June 2005, BCTC will hold its first Provincial Planning Forum. This will be an opportunity for the public to learn about the electric transmission system and BCTC's approach to planning this system. The planning forum will allow BCTC to better understand stakeholder interests and values with respect to transmission planning.

Report on Performance:

Safe, Reliable Transmission System

GOAL To ensure reliability and security of the transmission system

OBJECTIVE To meet the reliability standards of the industry in a cost-effective, safe and sustainable manner that is acceptable to our customers

Key Strategies

1. Sustain the health and performance of transmission assets to maintain system reliability
2. Realize the greatest value from transmission investment while cultivating the skills, tools and processes for effective asset management
3. Plan and operate the system in a safe and environmentally responsible manner
4. Ensure commercial viability and financial stability of the company over the long-term

Performance Measures

	F2004 Actual	F2005 Target	F2005 Actual	F2006 Target	F2007 Target
BCTC System Average Interruption Duration Index (SAIDI)*	2.1	2.2	1.7	2.1	2.1
Compliance with NERC and WECC Reliability Management Standards	Full	Full	1 Violation	Full	Full
Operating Costs**	$38.3M partial year	$102.9M	$88.3M	$178.4M	$179.2M
Number of Preventable and Reportable Environmental Incidents	2	2	3	2	2
Completion of Planned Safety and Environmental Management Programs	N/A	85%	95%	95%	95%

*SAIDI is the average amount of times across all transmission delivery points that service is interrupted in a year, due to unplanned outages.

**The F2004 and F2005 actuals and targets represent the total fees charged to BC Hydro and include recovery of OMA costs, depreciation, finance charges, taxes and return on equity as is appropriate during this phase of BCTC operations. The F2006 and F2007 targets reflect the April 1, 2005 transition to Phase II and are direct operating costs only, and include those costs previously incurred by BC Hydro.

The Service Plan for fiscal year 2005/06 to 2007/08 stated the F2005 Operating Costs forecast as $100.6M, but did not state our F2005 target. The F2005 target for Operating Costs was in fact $102.9M, as approved by the BCTC Board in May 2004. The forecast in the Service Plan was as at January 2005, hence was based on 9 months of actual data.

IMPORTANCE

The transmission system, if replaced today, would represent an investment of about $11 billion. The safety and reliability of this valuable system are priorities for BCTC. In Fiscal 2005 we took major steps to ensure that our focus and efforts to maintain and enhance these important assets continue to be done efficiently and cost-effectively. We completed a number of projects that provide the foundation for sustainable operation as an independent transmission company.

PERFORMANCE HIGHLIGHTS

BCTC substantially exceeded its reliability target in Fiscal 2005. BCTC measures its reliability performance using System Average Interruption Duration Index (SAIDI), a measure of outage duration that is widely used in the industry as a measure of system reliability.

Fiscal 2005 also saw BCTC exceed its target in two other important areas. We improved on our target for operating costs by more than 14 per cent and completed 95 per cent of our safety and environment management programs, an improvement over our target of 85 per cent.

BCTC encountered more challenges against its targets for environmental performance in Fiscal 2005. BCTC incurred two incidents involving streamside vegetation management non-conformances. In addition, a control centre operation error resulted in a failure to maintain flow rates downstream from a BC Hydro generation facility. After each incident, a thorough investigation was conducted. This led to a continuous review process with staff and contractors to ensure that they are aware of all environmental sensitivities and system conditions associated with their specific projects.

Also in Fiscal 2005, BCTC failed to meet its target of full compliance with the reliability standards set by the Western Electricity Coordinating Council (WECC). In June 2004, a WECC audit found one incident of non-compliance related to a small (1.7 megawatt) unscheduled flow violation from a generator. To avoid a recurrence, training protocols and systems have since been changed.

MAJOR INITIATIVES

Some of the major initiatives undertaken by BCTC as part of ensuring a safe and reliable transmission system include:

Asset Baseline Audit – In December 2004, BCTC led the North American industry by completing an independent audit of BC's transmission system assets and producing a health index for 33 different classes of assets. The Asset Baseline Audit is critical to BCTC as it provides asset managers with standardized information for making sound investment decisions.

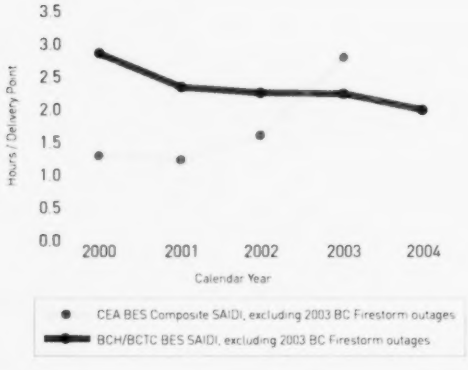
In general, BCTC found the assets to be in substantially sound condition with weaknesses confined to the areas expected.

Asset Management Program – BCTC manages each transmission asset to deliver the most value at the least cost

Report on Performance:

Safe, Reliable Transmission System (continued)

INDUSTRY BENCHMARK: BULK ELECTRICITY SYSTEM SAIDI*



In calendar year 2003, the BC Bulk Electricity System SAIDI was 2.21. This compares favourably to the CEA's composite SAIDI result of 2.88. At the time of printing, CEA's composite result for 2004 was not available.

*Reliability statistics for independent transmission companies have a short history given the recent separation of integrated generation plus transmission utility companies in most jurisdictions. Furthermore, no transmission company operates with the same business model as BCTC. Therefore, BCTC's reliability performance cannot be compared directly to that of other Canadian transmission providers at the current time. The CEA Bulk Electricity System (BES) SAIDI frequently held up as a benchmark, includes facilities which are beyond BCTC's control. However, the result is largely influenced by the performance of the BCTC system, so the comparison with the CEA BES SAIDI may be made for illustrative and trending purposes.

over its lifetime. In September 2004, we developed and implemented a new integrated asset management system and processes that will ensure capital and operating expenditures yield the greatest benefit. By implementing this program, BCTC has already reduced or deferred $18 million in expenditures through changing the priority of some capital projects, employing new procurement rules and better managing uncertainties associated with capital project development. This program is helping BCTC achieve lower costs without compromising reliability or safety.

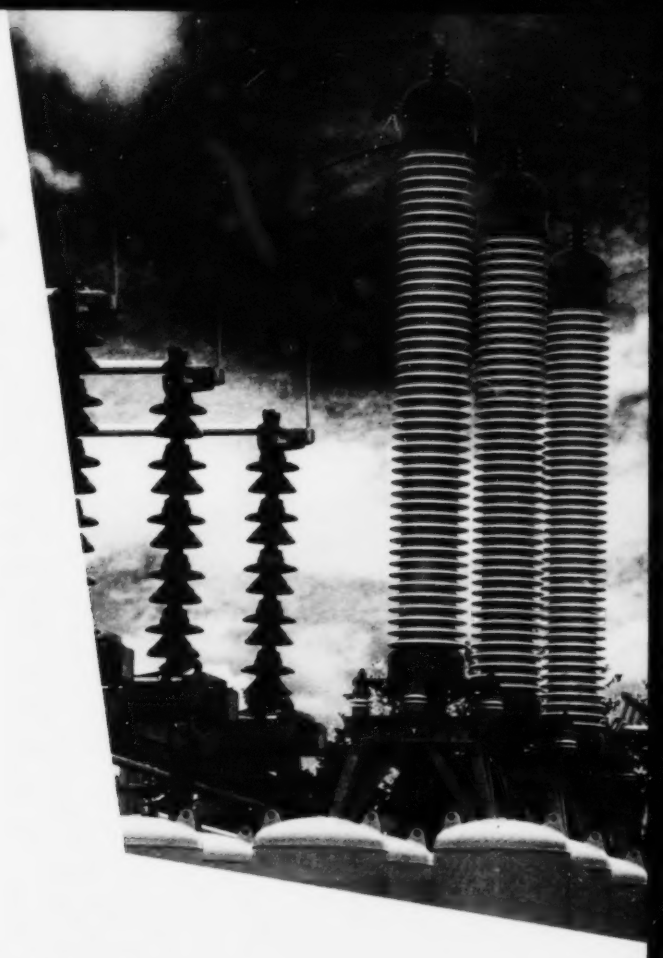
System Control Modernization Project A new system control centre plays an important role in the reliability and security of the electricity grid. This $134 million initiative, which was approved by the BCUC in February 2005, will provide a responsive, technologically sophisticated system that can accommodate system growth and improve the overall physical and cyber-security of BC's electricity grid. By consolidating the regional control centres into a main control centre in the Lower Mainland and a back-up centre in the BC Southern Interior, the system will be more effectively coordinated, technology costs will be reduced, and BCTC can plan a more flexible workforce.

Vegetation Management – Vegetation management is critical to the reliability and safety of our transmission system. In 2004, a 10-year, $30 million edge tree management program was launched. This new program identifies and mitigates the risks of hazardous trees growing near rights-of-way.

BC has some of the tallest and fastest growing trees in North America, so our edge tree program was initiated to reduce the number of outages caused by trees coming into contact with transmission lines (the single largest cause of transmission outages in BC).

Industry Benchmarks - In Fiscal 2005, we participated in benchmarking exercises to compare our practices to those of other similar organizations. One study was sponsored by the Canadian Electricity Association's Committee on Corporate Performance and Productivity Evaluation. It focused on measuring operations, maintenance and administrative efficiency in transmission activities. Through this benchmarking study BCTC has gained a better understanding of best practices in the industry and our comparative performance.

Environmental Management System - Understanding, managing and mitigating the environmental risks of our business is a responsibility we take seriously. In Fiscal 2005, we implemented the first phase of a contaminated sites risk management strategy. This program assessed 296 stations for their environmental impact and contamination risk. We achieved a 30 per cent reduction in annual losses of sulphur hexafluoride (SF6), a greenhouse gas, by replacing five large dual pressure circuit breakers. We also initiated the development of an inventory and ranking system for plant and animal species at risk that could be affected by BCTC actions.



LOOKING AHEAD

In Fiscal 2006 we will continue our drive for safety and reliability through a number of new initiatives.

- We will improve the framework for prioritizing capital investment and maintenance decisions.
- We will modify asset health systems and processes to capture condition assessment data as part of routine maintenance activities.
- We will build on the benchmarking undertaken in Fiscal 2005 by launching improvement initiatives based on this work. We will also continue to participate in benchmarking studies in our drive to identify leading practices and to improve performance.
- We will proceed with our application to the BCUC and BC Environmental Assessment Office in respect to the Vancouver Island Transmission Reinforcement project, a critical initiative in improving electrical reliability on Vancouver Island after 2008.
- We will identify and implement formalized systems recovery plans for returning affected business systems, processes and infrastructure to normal operations in the event of a disaster.
- We will proceed with development and construction of the System Control Modernization Project.
- We will continue to improve the programs and education available to system operators in an effort to improve reliability standards and reduce errors.

Report on Performance:

High Performance Workforce

GOAL To create the "model" transmission company

OBJECTIVE To build a stand-alone transmission company that is a model of operational and asset management excellence

Key Strategies

1. Build business knowledge and leadership excellence
2. Develop and implement succession planning
3. Achieve worker safety

Performance Measures

	F2004 Actual	F2005 Target	F2005 Actual	F2006 Target	F2007 Target
Employee Engagement Survey - Alignment Pillar	3.20	3.30	3.32	3.40	3.50
Number of Preventable Lost Time Accidents (BCTC employees)	-	0	0	0	0

IMPORTANCE

BCTC believes investing in people is directly linked to our business performance. Success is achieved when people feel connected to and aligned with the organization, and can contribute to decisions that affect them. A positive, thriving culture also helps attract highly skilled, experienced, diverse and resilient people needed to deliver the services expected by our customers and stakeholders.

PERFORMANCE HIGHLIGHTS

In Fiscal 2005, we met or exceeded targets in both performance measures related to our high performance workforce. On employee engagement, we achieved the desired employee alignment with our corporate direction and our values. To ensure that we have the skills and talent we need to ensure business continuity over the next ten years, we completed a preliminary succession plan. In addition, we maintained a zero lost time accident rate.

MAJOR INITIATIVES

Some of the major initiatives launched by BCTC as part of investing in our people and fostering our high performance workforce include:

Employee Engagement – Using an annual employee survey, we measure the progress of our actions to engage our workforce. The survey includes questions on how well our employees understand their role in BCTC, whether they feel they have the skills, knowledge, ability and

resources to do their jobs, and how motivated they are. In 2004, we concentrated on improving employee alignment with BCTC's corporate objectives, mission, vision and values. Based on this alignment measure we met our target score of 3.3 out of 5.

Succession Planning – Almost half of our employees will be eligible to retire over the next ten years. Succession planning is essential to ensure that, for business continuity, BCTC can manage risks from employee attrition, inadequate internal skills or shortages in the labour market. In November 2004, BCTC completed an initial succession plan that identified senior management positions at risk and individuals with the potential to fill them. This plan will be updated annually. We also reviewed our recruitment practices and employment offers to attract the best talent for our business needs.

Training and Development – Creating a company that provides superior service and enhancing organizational capabilities means investing in training and development. In Fiscal 2005, we established the BC Transmission Academy to support the corporate strategy of transforming our business through operational excellence. The Academy offers courses in technical and business skills taught by experienced staff and outside industry experts. The first three courses: Power System Dynamics; Protection and Control; and Underground Transmission began in April 2005.

In Fiscal 2005, BCTC also became a NERC-approved System Operator Continuing Education Provider, developing and delivering NERC-recognized courses for system operator training. BCTC is an industry leader in using the Dispatcher Training Simulator for realistic emergency exercises and operation training.

Community Involvement – In 2004, we launched two corporate giving programs. Our Corporate Outreach Fund sponsors charitable initiatives that align with BCTC priorities around environment and education. In Fiscal 2005 we selected two signature programs - Evergreen's Stewards in the City Program, a habitat enhancement initiative, and the Pesk'a Aboriginal Shad Valley Program, which promotes educational opportunities for Aboriginal youth. TransConnect, our employee-based corporate giving program, donated more than $27,000 to charities that BCTC employees volunteer with. In addition, employees raised more than $69,000 for the United Way. Close to 50 per cent of all employees participated in the campaign and, in recognition of this exceptional participation rate, BCTC received a United Way Community Spirit Quantum Leap Award.

Worker Safety – Safety is a core business value. To protect our workers and the public, BCTC has adopted a comprehensive approach including safety principles, management practices and performance measures through our Safety Management System. This system incorporates the latest industry standards and government regulations and employs a process of continuous improvement encompassing standards, training, awareness, supervision, audits, follow-up and review to help mitigate safety risks. In November 2004, in recognition of our overall safety performance, we received the President's Award of Excellence for employee safety from the Canadian Electricity Association. Our employee safety recognition program, *Safe-T-First*, was implemented in January 2005 and has helped raise awareness of the importance of working safe. The program also contributed to reaching our target of zero preventable lost time accidents in 2004/05. As well, BCTC prepared safety processes and procedures that our contractors must follow when doing work for us.

LOOKING AHEAD

In Fiscal 2006, BCTC will continue to build our unique employment culture, workforce plan and safety management system.

- We will offer five new courses and enhance our Dispatcher Training Simulator programs through the BC Transmission Academy.
- We will negotiate collective agreements that reinforce the excellence of our workforce.
- We will continue to seek employee input in developing the organizational plan and transition process for the System Control Modernization Project.
- We will focus on building good working relationships with select post secondary institutions, professional associations or other agencies, which will assist BCTC in attracting the best people to our organization.
- We will conduct our own recruiting process rather than outsourcing this to an agency. This focused approach will ensure we recruit top talent for our organization, and are better able to respond to BCTC's current and future human resource needs.
- We will continue to develop and refine human resource processes such as performance management, succession planning, training and development to support a high performing organization.

Governance

BCTC is a provincial Crown corporation incorporated under the *British Columbia Company Act* on May 2, 2003, reporting to the Minister of Energy and Mines.

BCTC operates in accordance with the *Transmission Corporation Act* enacted in May 2003. In November 2003, the Lieutenant Governor in Council designated five "key" agreements between BC Hydro and BCTC under this Act. The Key Agreements are intended, in part, to implement policy actions contained in the Province's 2002 *Energy Plan* and set out the obligations and responsibilities of the two parties.

BCTC's Board and Minister responsible have signed and annually review a *Shareholder's Letter of Expectations* which contains BCTC's mandate, public policy issues, performance expectations and roles and responsibilities. BCTC publicly releases its business objectives each year in its *Service Plan*.

The BCUC regulates BCTC, overseeing the terms and rates for transmission service offerings, and investments in BC's transmission infrastructure.

BOARD OF DIRECTORS

BCTC's 11-member Board of Directors is responsible for the overall direction, governance, and stewardship of BCTC. The Board's role is to confirm and maintain corporate direction, and with management, set corporate objectives and monitor performance against those objectives. The Board regularly reviews corporate performance measures to ensure they remain responsive to the changing business environment in which we operate.

The Board is responsible for full and timely disclosure of BCTC's financial and business performance and material developments reasonably anticipated to have significant impact on the prospects and risks of our business. The Board exercises independent judgment in balancing commercial and public policy objectives to ensure that BCTC is operated in a sound commercial manner while fulfilling the public policy responsibilities assigned to it as a Crown corporation by its shareholder, the Government of British Columbia. In fulfilling its responsibilities, the Board considers the interests of stakeholders, including customers, communities and employees.

The Board has three standing Committees: the Human Resources Committee, Audit Committee, and Corporate Governance Committee. In Fiscal 2005, the Board also formed a Chief Executive Officer Search Committee.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee provides guidance on behalf of the Board in the development of policies and actions to ensure BCTC has the employees required to ensure effective and safe operations, and is successful in attracting and retaining appropriate human resources to fulfill BCTC's mandate. The Committee reviews the President and CEO's performance objectives, evaluates performance results and recommends compensation for Board approval. The Committee also oversees environment, health and safety programs, practices, and regularly reviews performance in these areas.

AUDIT COMMITTEE

The Audit Committee provides oversight to the audit process, financial reporting, the system of internal controls, the relationship with the internal and external auditors and governance of BCTC's risk management framework and pension plan. The Committee reviews and recommends Board approval of BCTC's financial statements and significant financial transactions.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee provides advice and recommendations relating to corporate governance, including matters relating to the stewardship role of the Board, assessment of Board effectiveness, Board composition and compensation, and ongoing Director orientation. The Committee is responsible for procedures to allow the Board to function effectively and oversees BCTC's internal governance framework.

In February 2005, the Board Resourcing & Development Office of the Office of the Premier published *Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations*. The guidelines establish standards for governance practices for BC's public sector organizations. The Corporate Governance Committee is reviewing the Guidelines and oversees BCTC's compliance with them.

CEO SEARCH COMMITTEE

With the planned retirement of Michael Costello, the Board of Directors formed the CEO Search Committee in fall 2004 to assist in the search and selection of BCTC's new President and Chief Executive Officer. The Committee was advised by an executive search firm, developed selection criteria, conducted candidate interviews and analysis, and made final recommendations to the Board. In April 2005, Jane Peverett was appointed by the Board as President and Chief Executive Officer.

FISCAL 2005 ACTIVITIES

In Fiscal 2005, BCTC's Board of Directors held six Board meetings and twenty-five Committee meetings, including regular sessions without management present. As well, the Board participated in orientation sessions designed to advance industry acumen and board effectiveness. The Board held one strategic planning retreat in the Peace River region of the province, providing Directors with the opportunity to focus on strategic initiatives and engage with local community and industry representatives. The Board reviewed and approved a series of significant projects during the year, examined future initiatives for BCTC and monitored regulatory and industry developments. Key approvals included the Fiscal 2005 10-year Capital Plan, the System Control Modernization Project, implementation of an enterprise risk management framework, the annual operating budget and financial projections. As contemplated in the Key Agreements, additional service level agreements with BC Hydro were approved by the Board and executed effective 1 April 2005. Other activities included consideration of the strategic risk profile, review of environmental, health and safety governance frameworks, and development of succession plan practices.

The Board continued to build on the corporate governance framework established in the prior year. The Board, its Committees and the Board Chair each have written terms of reference outlining roles, responsibilities and procedures. A Board resource manual was developed and a comprehensive Board and Committee evaluation process was undertaken. The evaluation focused on Board and Committee operations and best practices.

FISCAL 2005 BOARD & COMMITTEE MEETINGS SUMMARY

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CODE OF ETHICS

BCTC's Employee and Director Code of Ethics was approved by the Board in December 2003. BCTC's Code of Ethics assists employees and directors in understanding the standards of behaviour that BCTC requires of them. Directors, officers and employees sign Code of Ethics declarations annually signifying that they have read and considered the Code of Ethics within the past twelve months and agree to conduct themselves in accordance with the Code.

STANDARDS OF CONDUCT

In Fiscal 2005, the BCUC approved BCTC's Standards of Conduct, which ensure the provision of non-discriminatory transmission service, provide assurance to all transmission customers that BCTC's tariff is administered in a non-discriminatory manner and ensure that no transmission customer is provided with preferential access to transmission system premises or information. BCTC's Standards of Conduct are posted in the About BCTC section at www.bctc.com.

ENTERPRISE RISK MANAGEMENT

In Fiscal 2005, BCTC implemented an enterprise risk management (ERM) program that provides an integrated and proactive approach to the identification and management of risks. The ERM framework identifies potential threats and opportunities; assesses risk in terms of impact and likelihood; mitigates risks with control activities; monitors BCTC's risk profile and provides assurance that control activities are effective. The corporate Risk Management Committee and Audit Committee of the Board oversee the ERM.

INTERNAL AUDIT

Reporting to the Audit Committee of the Board, the Internal Audit function is responsible for BCTC's internal control procedures and the management and protection of our assets. In keeping with best practices, BCTC has implemented the Committee of Sponsoring Organizations' Internal Control Framework as recommended by the internal auditing and accounting professions as a best practice control framework.

Board and Executive

As at June 3, 2005

BOARD OF DIRECTORS

Composition of the Board and its three standing Committees is set out below:

R.T.F. (Bob) Reid
Chair of the Board / Officer

Michael Costello
Vice-Chair of the Board / Member, Corporate Governance Committee / Officer (Retired as C.E.O. effective April 11, 2005)

Nicole Byres
Director / Member, Corporate Governance Committee

Richard Campbell
Director / Chair, Human Resources Committee

John Gill
Director / Member, Audit Committee

Norm Laythorpe
Director / Member, Audit Committee

Joanne McLeod
Director / Member, Human Resources Committee

Margot Northey
Director / Chair, Corporate Governance Committee

Bev Park
Director / Chair, Audit Committee

Gerald Wesley
Director / Member, Human Resources Committee

Ralph Winter
Director / Member, Audit Committee

CORPORATE OFFICERS

Jane Peverett
President & Chief Executive Officer
(Appointed as C.E.O. effective April 11, 2005)

John Irving
Vice President & General Counsel

Dennis Maniago
Vice President, System Planning & Asset Management

Brian Demerse
Director, Human Resources

Karen Adderley
Manager, Legal Services & Corporate Secretary

Elizabeth Hong
Corporate Controller

Appendix 1:

Performance Measure Definitions

BCTC SAIDI (System Average Interruption Duration Index) is a measure of the reliability of the transmission system that BCTC operates and manages. It is calculated as the average amount of time across all transmission delivery points that service is interrupted in a year, due to unplanned outages.

Completion of Planned Safety and Environmental Management Programs is a measure of the diligence that BCTC's managers use to meet the safety and environmental incident targets. The measure records progress in completing the annual calendar of actions that are designed to prevent safety and environmental incidents.

Compliance with NERC and WECC Reliability Management Standards is a measure of how well BCTC is meeting industry set standards on reliability. The August 2003 Northeast blackout reinforced the critical need for high reliability standards among interconnected utilities.

Employee Engagement Index (Alignment) rates BCTC's progress in building engagement within its workforce. In particular this measure focuses on how aligned employees are with the overall goals and objectives of the organization. This is measured through the annual employee engagement survey.

Number of Preventable and Reportable Environmental Incidents measures BCTC's performance as an environmentally responsible operator and manager of the transmission system. The measure reports on those incidents which could be prevented by BCTC's actions and which, if they do occur, are required to be reported to environmental regulatory agencies.

Number of Preventable Lost-Time Accidents measures how well BCTC is performing in ensuring the highest level of employee safety. It focuses on those incidents which can be avoided through effective safety management and which are serious enough that they would cause loss of time of work for an employee.

Operating Costs is a measure of the effectiveness of BCTC's cost management. The measure comprises costs for system operations, asset management and maintenance, general and administration, congestion management services, depreciation, finance charges and an allowed return on equity. In Fiscal 2005, under BCTC's Phase 1 operations this measure captures only BCTC's own costs that were incurred in these areas and charged to BC Hydro as a service fee.

Stakeholder Response is a measure of how well BCTC is meeting the expectations and needs of its customers and stakeholders. The target for the measure is a year on year improvement, assessed through the annual stakeholder survey which captures customer and stakeholder responses on awareness, impressions and satisfaction with BCTC.

Transmission Utilization Ratio is the measure of how much the intertie capacity between BC and Alberta and BC and Washington is being purchased and used by customers. It is the ratio of total transmission capacity sold on the interties to the total transmission transfer capacity of the interties.

Appendix 2:

Glossary

Benchmark is a measured, "best-in-class" achievement that is used as a reference or measurement standard for comparison and is recognized as the standard of excellence for a specific business process.

Capacity is the amount of electric power that can be transferred over the interconnected transmission system network in a reliable manner while meeting all of a set of defined system conditions.

Gigawatt hour (GWh) is a unit of bulk energy; One million kilowatt hours.

Interconnected System is a system which has two or more individual power systems normally operating in synchronism and having connecting tie lines.

Intertie is a transmission circuit used to tie or inter-connect two load areas of two utility systems.

Kilowatt hour (KWh) is the basic unit of electric energy equal to 1 kilowatt or 1,000 watts of power used for one hour. The amount of power the customer uses is measured in kilowatt hours (kWh). A 100-watt light bulb operated for 10 hours uses 1 kWh.

Load is the total amount of electricity required to meet customer demand at any moment. The load equation fluctuates depending on electricity use throughout any given day.

Megawatt hour (MWh) is a unit of bulk energy; 1000 kilowatt hours.

NERC means the North American Electric Reliability Council.

Open Access allows the use of the transmission system to move bulk power from one point to another on a non-discriminatory basis.

Power is the rate at which electric energy is converted into another form, such as light, heat, or mechanical energy (or converted from another form into electric energy).

Revenue Requirement means the amount of revenues the utility needs to receive in order to cover operating expenses, pay debt service, and provide a fair return to common equity investors.

Transmission is the process of transporting electric energy in bulk on high-voltage lines from the generating facility to the local distribution company for delivery to retail customers.

Voltage is the force which pushes electricity through a wire (just as pressure causes water to flow in a pipe).

WECC means the Western Electricity Coordinating Council which is one of 10 NERC regional councils.

British Columbia Transmission
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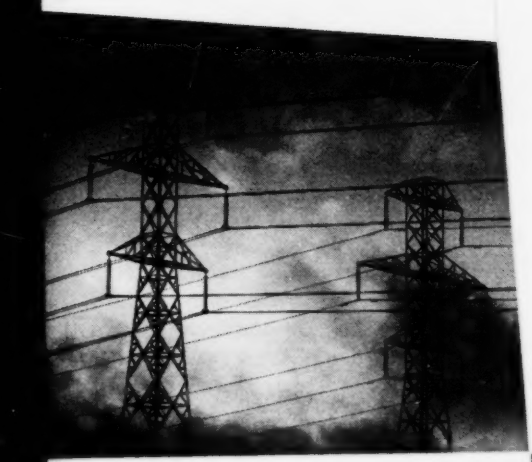
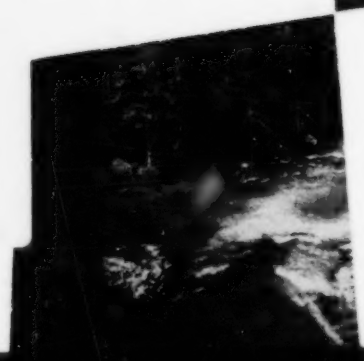
2005 Financials





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Management's Discussion and Analysis

The Management's Discussion and Analysis has been prepared to assist readers in understanding the British Columbia Transmission Corporation's (BCTC) results of operations and financial position for the year ended March 31, 2005 (F2005) relative to the period from incorporation, May 2, 2003 to March 31, 2004 (F2004), and for the Service Plan published in February 2004 (Plan). This discussion and analysis should be read in conjunction with BCTC's financial statements and the accompanying notes. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

The discussion and analysis contains forward-looking statements which management believed to be reasonable based on current conditions and assumptions. These statements are subject to risks and uncertainties which may cause actual results to differ materially from those contemplated in the forward-looking statements. This management's discussion and analysis is dated as at May 6, 2005.

OVERVIEW

BCTC is a provincial Crown corporation incorporated on May 2, 2003 and is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements designated by the Lieutenant Governor in Council (November 20, 2003) to plan, operate and manage the electric transmission system owned by the British Columbia Hydro and Power Authority (BC Hydro).

BCTC began operation on August 1, 2003 under the Transition Agreement to operate the transmission business on behalf of BC Hydro, on a cost recovery basis. The Transition Agreement was effectively terminated with the designation of the Key Agreements on November 20, 2003 and BCTC began Phase 1 operation under the Key Agreements effective December 1, 2003.

On March 8, 2005, BCTC received British Columbia Utilities Commission (BCUC) interim approval for a "rollover" of the existing terms and conditions of BC Hydro's Wholesale Transmission Services tariff, effective April 1, 2005. This enabled BCTC to complete its transition to an independent transmission provider as contemplated by the *Transmission Corporation Act* and the Key Agreements and Phase 1 operation ceased effective April 1, 2005.

Due to the economic dependence of BCTC on BC Hydro during the Phase 1 period, BCTC's accounts, as set out in these financial statements, are consolidated with the accounts of BC Hydro in F2005.

F2005 Highlights:

The year ended March 31, 2005 was the first full year of BCTC's operations. BCTC made significant progress toward laying the foundation for its transition to an independent transmission service provider beginning April 1, 2005. Major accomplishments include:

- BCUC approval of BCTC's revenue requirement as part of BC Hydro's 2004/2005 and 2005/2006 Revenue Requirement application. BCTC's revenue requirement was approved as filed.
- BCUC approval of BCTC's deferral accounts effective April 1, 2005 as filed.
- BCUC approval of the F2005 Transmission Capital Plan as filed.
- Successful negotiation of six commercial service level agreements with BC Hydro effective April 1, 2005.
- BCUC approval of the System Control Modernization Project at a total planned cost of $134 million.
- Implementation of technology enablers including the Asset Management Information System and the Oracle Financial System.
- Reached agreement with BC Hydro on the basis for the separation of the BC Hydro Master Services Agreement with Accenture Business Service including the determination of BCTC's share of the Minimum Aggregate Spend.

Management's Discussion and Analysis (continued)

RESULTS OF OPERATIONS

Selected Financial Information ($ millions)[1]

($ in millions)	F2005 ACTUAL	F2005 PLAN	F2004 ACTUAL
Revenues	94.8	106.6	42.3
Congestion management costs	0.7	1.0	0.3
Operations, maintenance and administration	71.6	82.0	35.7
Taxes	0.3	0.3	0.1
Deprecation and amortization	17.3	18.6	4.9
Finance charges	1.5	1.4	0.3
Net Income	**3.4**	**3.3**	**0.9**

BCTC plans, operates and maintains BC Hydro's transmission system and earns service fees for providing system operation and asset management and maintenance services to BC Hydro. These service fees are established based on BCTC's actual cost of operation and a return on equity.

For F2005, BCTC earned a net income of $3.4 million (F2004: $0.9 million) based on earning 13.91% return on its equity. No dividend was declared or paid during F2005. The increase in net income in the current year is due to a full year of operations.

Revenues

Total revenues for F2005 and for F2004 were approximately $94.8 million and $42.3 million respectively. BCTC earns almost all of its revenues by providing transmission services to BC Hydro.

REVENUES

($ in millions)	F2005 ACTUAL	F2005 PLAN	F2004 ACTUAL
BC Hydro Transmission System Operation	61.4	69.0	28.1
BC Hydro Asset Management and Maintenance	26.9	33.9	10.2
BC Hydro Distribution Operations Services	2.6	2.6	1.7
BC Hydro Generation Control Services	1.1	1.1	1.2
Other Services and Revenues	1.2	—	0.5
Investment Income	1.4	—	0.6
Other Revenue	0.2	—	—
Total Revenues	**94.8**	**106.6**	**42.3**

- Transmission System Operation revenue is earned for real time operation, market operations, system performance, and growth capital investment.
- Asset Management and Maintenance revenue is earned for developing asset management strategies, managing and maintaining the transmission system, identifying sustaining capital investment and monitoring asset performance.
- Other services provided to BC Hydro are Distribution Operations Services and Generation Control Services. Distribution Operations Services relate to real-time monitoring and response, outage scheduling and distribution records creation and maintenance associated with BC Hydro's distribution system. Generation Control Services relates to generation control, and supervisory control and data acquisition services relating to BC Hydro's generation system.
- F2005 Transmission System Operation revenue and Asset Management and Maintenance revenue were $14.6 million below Plan as a result of lower cost of operations and higher other revenue.

[1] Certain comparative figures have been reclassified to conform with the current year's presentation

- BCTC earned $1.4 million in F2005 and $0.6 million in F2004 in investment income as BCTC was in a surplus cash position. This surplus was due to BCTC billing service fees in advance. The true-up of revenues against operating costs was performed at the end of the fiscal year.

Congestion Management Costs

As part of its system operation activities, BCTC periodically purchases congestion management services from other parties to address transmission system capacity or availability issues. Under an existing contractual arrangement, BCTC paid $0.7 million in F2005 and $0.3 million in F2004 for transmission locational credits to ensure back-up transmission services were available to serve customer load.

Operations, Maintenance and Administration (OMA)

OMA expenses consist primarily of labour, payments to Accenture Business Services (ABS) (see Contracts and Commitments section) and BC Hydro service providers (see Transactions with Related Party section), and other outside services. For F2005 and F2004 all costs are included in the service fee charges and fully recovered from BC Hydro.

OMA expenses of $71.6 million and $35.7 million were incurred in F2005 and F2004 respectively. The increase of $35.9 million reflects a full year of operation in F2005. The table below highlights the major cost categories and expenses:

($ in millions)	F2005 ACTUAL	F2005 PLAN	F2004 ACTUAL
Labour	36.7	37.5	21.1
ABS	9.1	10.4	3.8
Other Outside Services	7.8	13.5	6.1
Membership Dues, Licences, Audit, Insurance and Other Fees	4.1	3.8	2.5
BC Hydro Services	3.8	5.4	1.1
Building Maintenance and Rent	3.2	3.1	1.9
Legal other than Regulatory	1.9	2.8	1.5
Regulatory legal and advisory services	2.8	2.5	0.4
Initiatives	3.1	6.2	0.8
Emergency Maintenance	1.6	2.0	—
Write-down of asset utilization fee and payroll system costs	1.9	—	—
Capital Overhead	(4.4)	(5.2)	(3.5)
Total	**71.6**	**82.0**	**35.7**

These expenses can be further categorized as follows:

($ in millions)	F2005 ACTUAL	F2005 PLAN	F2004 ACTUAL
Operations	36.0	40.0	14.0
Maintenance	14.4	22.4	9.1
Administration	21.2	19.6	12.6
Total	**71.6**	**82.0**	**35.7**

Operations expense relates to the control and dispatch, market operations and system planning functions of the company. F2005 operations expenses were below Plan due to lower Grid West participation resulting from review of the Grid West timetable and labour vacancies. Maintenance expense relates to the management, performance and quality assurance associated with the maintenance and sustaining capital planning for the transmission system assets. During F2005, additional costs of maintenance work performed by BC Hydro service providers were charged to BC Hydro, the transmission owner, while the related Plan was in BCTC. Beginning in F2006 the maintenance costs for work performed by BC Hydro service providers will be charged to BCTC. Administration expense relates to corporate functions, legal, regulation, finance, procurement, communication and strategy and business planning. F2005 administration expenses were above Plan, primarily due to the write-off of payroll system costs and the write-down of the prepaid asset utilization fee paid to BCH Services Asset Corp.

Management's Discussion and Analysis (continued)

The BCUC approved BCTC's operating plan for F2005 and two deferral accounts relating to its operating expenses, Emergency Maintenance Deferral Account and Regulatory Expenses Deferral Account. These deferral accounts will be effective for the fiscal year commencing April 1, 2005.

- For F2005, extraordinary expenses of $1.6 million had been incurred against a plan of $2 million. These expenses related to transmission line fire damage and the clean up of an oil spill. Effective April 1, 2005, any differences between actual and plan will be recorded in the Emergency Maintenance Deferral Account.
- For F2005, regulatory expenses of $2.8 million had been incurred against a plan of $2.5 million. Effective April 1, 2005, any differences between actual and plan will be recorded in the Regulatory Expenses Deferral Account.

Taxes

Grants in lieu of taxes for F2005 were $0.3 million compared to $0.1 million for F2004. These grants in lieu of taxes are related to the control centres which are leased from BC Hydro or owned by BCTC. In F2004, taxes were lower as BCTC did not acquire these control centre assets until December 2003.

Depreciation and Amortization

Depreciation for F2005 was $17.3 million. In comparison, F2004 deprecation was $4.9 million. BCTC acquired fixed assets from BC Hydro as part of the Asset Lease, License and Transfer Agreement (ALLTA) in November 2003 with an additional acquisition under this agreement occurring in March 2004. As a result, BCTC recorded only four months of depreciation in F2004. For F2005, BCTC had a full year of depreciation on these assets in addition to depreciation on the final transfer under the ALLTA in September 2004 for completed projects as well as depreciation on capital projects placed in service.

The payroll system is being replaced in May 2005 and BCTC has accelerated the depreciation so that the existing assets are fully depreciated at May 2005.

Depreciation amounts are summarized below:

($ in millions)	F2005 ACTUAL	F2005 PLAN	F2004 ACTUAL
Depreciation on assets in service at the beginning of the period	15.6	14.9	4.7
Depreciation on Capital Projects placed in service during the period	1.0	3.7	0.2
Depreciation on additional ALLTA assets transferred September 2004	0.2	–	–
Accelerated depreciation on the payroll assets	0.5	–	–
Total	**17.3**	**18.6**	**4.9**

Financing Charges

Finance charges include charges on funds used for acquiring capital assets and charges relating to capital leases. In F2004, BCTC did not incur finance charges until October, 2003.

($ in millions)	F2005 ACTUAL	F2005 PLAN	F2004 ACTUAL
Finance charges	**1.5**	**1.4**	**0.3**

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash from operating activities was $5.7 million for F2005 and $25.3 million for F2004. The $19.6 million decrease in cash generated by operating activities was largely due to an increase in non-cash working capital, offset by higher net income, depreciation and amortization, and other non-cash items.

Changes in non-cash working capital related to operating activities for the periods ended March 31, 2005 and 2004 are as follows:

($ in millions)	F2005	F2004
Accounts receivable	(1.6)	(0.3)
Prepaid expenses	(0.2)	(0.9)
Accounts payable and accrued liabilities	(2.0)	9.0
Accrued interest	0.3	—
Deferred revenue	0.4	0.2
Due to BC Hydro	(15.0)	10.8
Decrease (increase) in non-cash working capital	**(18.1)**	**18.8**

Investing Activities

Net cash used in investing activities was $21.4 million for F2005 and $58.9 million for F2004, a decrease of $37.5 million. The decrease is primarily a result of lower capital acquisitions in F2005 compared to F2004. Other investing activities during F2005 include the $6.7 million prepayment to BCH Services Asset Corp. for assets used by ABS in the provision of services to BCTC.

Asset Acquisitions

BCTC acquired capital assets from BC Hydro as part of ALLTA. These assets are required to plan, operate and maintain the transmission system including the system control centre building, computer hardware and software required to operate the Business Applications and the Energy Management System, communications equipment as well as office equipment. The three separate purchases are summarized below:

($ in millions)

Date of Acquisition	Amount
November 2003	50.7
March 2004	5.9
September 2004	2.4
Total	**59.0**

Capital expenditures, excluding the $2.4 million asset acquisition from BC Hydro, totalled $13.3 million in F2005 compared with $9.3 million in F2004. F2004 was a shorter financial period and included capital expenditures for the establishment of BCTC infrastructure. In F2005, capital expenditures were directed towards the establishment of BCTC operations and included the Financial System, Asset Management Information System and Control Centre Tool Enhancements projects.

Project expenditures in F2005 and F2004 are as follows:

($ in millions)

Portfolio	F2005	F2004
Business Support Systems	9.4	3.8
Information Technology	1.4	0.4
Control Centres	1.9	3.7
Land and Buildings	0.6	1.4
Total	**13.3**	**9.3**

The F2004 capital expenditure was partially offset by a $2 million tenant inducement fee for the Vancouver head office.

Management's Discussion and Analysis (continued)

In February 2005, BCTC received BCUC approval for a Certificate of Public Convenience and Necessity to proceed with the System Control Modernization Project (SCMP) at an approved budget of $134 million. BCTC requires information, communication systems and automated operation systems to operate the integrated transmission system and to facilitate electricity market access to Alberta and the United States. The current Energy Management System and the Supervisory Control and Data Acquisition Systems are based on 1960's operating models and are at the end of their useful lives. The existing systems are inefficient and do not have the features and functionality required in an open access and evolving regulatory and business environment. This project will modernize the operating equipment and consolidate the control centres from four regional centres and one system control centre to one primary control centre in the Lower Mainland and one back up control centre in the BC Southern Interior. This project is forecast to be in service April 2008.

Financing Activities

Net cash from financing activities was $27.5 million for F2005 and $38.4 million F2004, a decrease of $10.9 million.

Short-term liquidity is provided through funds from operations supplemented with short-term commercial paper borrowings from the Province of British Columbia. Use of short-term commercial paper is restricted to the lesser of 30% of BCTC's total debt portfolio or $25 million. Additionally, BCTC has bank credit facilities of $5 million.

As at March 31, 2005, BCTC had no outstanding short-term borrowings, and had not drawn on the bank credit facilities. The short-term liquidity available through the commercial paper program and the operating line are sufficient to fund its normal operating requirements.

Long-term financing is provided by the Province of British Columbia through an off-lending arrangement and the issuance of matching debentures to the Province. BCTC had one outstanding issue for $30 million as at March 31, 2005, which matures on December 18, 2008. Interest is payable semi-annually and payments are made in June and December of each year until maturity. The debenture proceeds were used to repay the $30 million in short-term borrowings outstanding in May 2004. BCTC is fully compliant with the terms and conditions of that debenture.

Other financing activities during F2005 included the receipt from BC Hydro of $6.5 million for the financial settlement of BCTC's employees' post-retirement benefit liability and $0.8 million for BC Hydro's share of the asset retirement liability relating to the control centre facility transferred to BCTC on December 1, 2003 under ALLTA.

By comparison, during F2004, BCTC issued one common share to the Province of British Columbia (Minister of Finance) for $20 million. Other F2004 financing activities included a net increase in short-term borrowings of $9.9 million, the receipt of $8.6 million from BC Hydro for the financial settlement of BCTC's employees' earned time bank liability, and $10.2 million increase in amount due to BC Hydro.

TRANSACTIONS WITH RELATED PARTY

BC Hydro

BCTC manages, maintains and operates the high-voltage electric system in British Columbia on behalf of its legal and beneficial owner, BC Hydro. During F2005, BCTC was operationally dependent on BC Hydro and BCTC's accounts are consolidated with the accounts of BC Hydro for F2005.

The following are transactions with BC Hydro during F2005:

Asset Acquisitions

Pursuant to ALLTA , BCTC acquired capital assets from BC Hydro in October 2004 for $2.4 million (2004 - $56.6 million), BC Hydro's net book value for these assets at transfer date.

Revenue

BC Hydro pays BCTC for the cost of system operation and asset management services, distribution operation services, generation dispatch services and other consulting services. Services are invoiced and settled on a monthly basis. Included in revenue is $93.0 million (F2004 - $41.7 million) for services provided to BC Hydro. The increase in revenue reflects operation for the year in F2005 in contrast to F2004 when BCTC commenced operations on August 1, 2003. As well BCTC's system operation and asset management services include an allowed return on equity from December 1, 2003 only.

Operations, maintenance and administration (OMA)

BCTC pays BC Hydro for maintenance services performed on BCTC's assets by BC Hydro service providers. Included in OMA expenses is $3.8 million (F2004 - $1.1 million) for services provided by BC Hydro and $0.2 million (F2004 - $0.1 million) as operating leases payments. The increase in expenditures reflects operation for the full year in F2005 in contrast to F2004 when BCTC commenced full operations on August 1, 2003. The following table shows the type of services obtained from BC Hydro in F2005 and F2004.

($ in millions)	F2005	F2004
Field Services	2.5	0.3
Engineering Services	0.3	—
Powertech Services	0.8	0.1
Properties Services	—	0.2
Other	0.2	0.5
Total	**3.8**	**1.1**

Also included in OMA expenses is $4.2 million (F2004 - $3.5 million) relating to BCTC's services invoiced to BC Hydro for labour overhead cost recoveries.

Finance charges

Included in finance charges is $0.5 million (F2004 - $0.1 million) relating to two buildings leased from BC Hydro beginning December 2003 that have been accounted for as capital leases.

BCH Services Asset Corp. (SAC)

Effective April 1, 2003 BC Hydro entered into agreements for outsourcing various administration and support functions to Accenture Business Services of British Columbia Limited Partnership (ABS). The ABS Master Services Agreement with BC Hydro is for a 10-year period commencing April 1, 2003.

In F2005, BCTC entered into an agreement of key principles and terms with BC Hydro to split the current ABS Master Services Agreement between BC Hydro and BCTC with BCTC allocated a portion of the minimum aggregate spend with ABS.

In F2005, BCTC paid SAC $6.7 million (F2004 - $nil) as an initial asset utilization fee. Included in OMA is $1.0 million relating to the amortization of the asset utilization fee and a $0.9 million write-down resulting from BCTC no longer requiring the use of certain assets included in the fee. The balance of $4.8 million is included in prepaid expenses with $0.9 million shown as a short-term prepaid and $3.9 million as a long-term prepaid. The fee is amortized over 6.7 years, being the useful life of the assets, commencing April 1, 2004.

BCTC incurred $11.0 million in ABS costs during F2005 relative to $3.8 million during F2004. The increase is mainly due to a full year of operation in F2005 as well as additional services provided by ABS on the special projects. ABS charges are for information technology, facilities, financial and human resource services.

REGULATION

BCTC's allowed rate of return on equity is established by Special Direction of the Province of BC. The allowed return is currently set in reference to the regulated return allowed to Terasen Gas Inc. BCTC's allowed rate of return for the past fiscal year was 13.91%.

BCTC's 10-year Capital Plan must be filed and approved by the BCUC annually. Large or complex projects also require approval from the BCUC in the form of a Certificate of Public Convenience and Necessity.

Management's Discussion and Analysis (continued)

During F2005, BCTC submitted six applications to the BCUC (During F2004, two applications were submitted – a revenue requirement filing for F2005 and a deferral account filing: both filed as part of BC Hydro's revenue requirement and approved on October 29, 2004). The filings for F2005 included:

- An Open Access Transmission Tariff (OATT) application was made and BCTC is currently awaiting the BCUC's decision. BCTC received interim approval from the BCUC for a Temporary OATT (a rollover of BC Hydro's Wholesale Transmission Tariff) effective April 1, 2005. This approval triggered Phase 2 establishing BCTC as the seller of open access transmission service on the BC Hydro transmission system.
- Two Capital Plan filings. BCTC filed and received approval for the F2005 Transmission System Capital Plan. BCTC has also submitted the F2006 Transmission System Capital Plan to the BCUC, which is currently being reviewed through a written process.
- A Certificate of Public Necessity and Convenience (CPCN) for the System Control Modernization Project which will see BCTC's six existing control centres amalgamated into one control centre with one back-up control centre. This CPCN application was approved on February 14, 2005.
- The F2006 Revenue Requirement Application was submitted to the BCUC on December 23, 2004. It is anticipated that this application will be settled through a negotiated process scheduled for late May 25, 2005.
- BCTC's Standards of Conduct were filed for approval on September 22, 2004 and approved on January 5, 2005.

SERVICE LEVEL AGREEMENTS

BC Hydro

As contemplated in the Key Agreements between BC Hydro and BCTC, BC Hydro and BCTC negotiated and signed new commercial service level agreements effective April 1, 2005.

The service level agreements (SLA) cover the provision of services between the two companies. The agreements contain terms and conditions that are consistent with the Key Agreements and define the contractual obligations of each party, the allocation of risk between the parties and the recognition that the parties are now two distinct independent entities. Prior to entering into these contracts the parties were operating under existing BC Hydro internal service level agreements that were in place prior to the establishment of BCTC.

The agreements under which BCTC purchases services from BC Hydro are:

1. Field Services Service Level Agreement

The Field Services SLA provides for the provision of maintenance services to BCTC by the BC Hydro Field Services Business Unit. The agreement provides for a fixed volume commitment of $42.8 million for a period of six years commencing April 1, 2004 and ending March 31, 2010. The agreement provides for a further commitment of up to $34.3 million for other services. Following the initial six year period either BCTC or BC Hydro may elect to reduce the committed volume by up to 20% per annum.

The key services covered in the agreement are:

- Substation Services
- Transmission Line Services
- Vegetation Maintenance Services
- Control Centre Maintenance Services

2. Engineering Service Level Agreement

The Engineering Services SLA provides for the provision of engineering services to BCTC by the BC Hydro Engineering Business Unit. The agreement provides for BCTC to purchase up to $46.2 million annually from BC Hydro for an initial six year term. At the end of the initial term the commitments can be reduced by 20% per annum by either party.

The key services covered in this agreement are:

- Planning and Design
- Capital Project Management
- Maintenance and Engineering Standards
- Technical Studies
- Drawings and Data Management

The agreements under which BCTC provides services to BC Hydro are:

1. Substation Distribution Assets (SDA) Asset Management

The SDA Asset Management SLA provides for the provision of asset management services for the SDA's by BCTC to BC Hydro. This agreement may be terminated at the end of six years by either party.

The key SDA asset management services covered by this agreement are:

- Planning Services for OMA, growth and sustaining capital
- Development of Service Plan and annual work plan
- Management of capital projects and maintenance programs
- Performance Measurement
- Accounting and Reporting

2. Distribution Operations Service Agreement

The Distribution Operations SLA provides for the provision of distribution operations services by BCTC to BC Hydro. This agreement may be terminated at the end of six years by either party.

The key distribution operations services covered by this agreement are:

- Person in charge duties
- Real-Time Monitoring and Response
- Operating Drawings and Mimic Displays
- Outage Scheduling
- Operational Planning

There are two agreements where BCTC and BC Hydro provide services to each other:

1. Generation Control Services Agreement

The Generation Control Services SLA provides for the provision of generation control services by BCTC to BC Hydro, and the provision of specific Operator services by BC Hydro to BCTC at GM Shrum and Fort Nelson Generating Plants. There is no fixed term for this agreement.

The generation control services covered by this agreement are:

- Generation Control Dispatch Services
- Generation Emergency Plans
- Water Conveyance Services
- Equipment Management
- Generation Data Services
- Emergency Assistance
- Alarm Monitoring Services
- BC Hydro Operator Services

2. Generating Plant and Operational Obligations Agreement

The Generating Plant and Operational Obligations Agreement outlines the obligations of both parties for the interconnection of BC Hydro owned generating plants to the transmission grid managed by BCTC. These obligations include agreements relating to operation of the generating plants required to support system reliability. There is no fixed term for this agreement.

Accenture Business Services

BC Hydro entered into a major outsourcing agreement with ABS beginning April 1, 2003. This contract was finalized prior to the establishment of BCTC.

As contemplated in the Key Agreements signed between BC Hydro and BCTC in November 2003, BC Hydro and BCTC are currently negotiating the separation terms for volume of services previously provided by ABS to the BC Hydro Transmission Line of Business. BC Hydro and BCTC have reached agreement as to the basis for the separation including the split of the Minimum Aggregate Spend in the BC Hydro Master Services Agreement with ABS. The parties are currently conducting tri-party negotiations to conclude the separation of services to BCTC. BCTC intends to sign a new agreement with ABS on terms and conditions consistent with those contained in the BC Hydro Master Services Agreement.

Included in the Term Sheet with BC Hydro is an agreement for the ongoing use by BCTC of assets owned by BC Hydro that are required for ABS to provide services to BCTC. Such assets included IT infrastructure, IT software and office facilities. The services are provided to BCTC on a cost recovery basis. The parties have signed a Term Sheet with major terms and conditions and plan to finalize a definitive agreement following an agreement with ABS for the separation of the BC Hydro Master Services Agreement.

Other Commercial Contracts

As part of the separation of business activities from BC Hydro, BCTC and BC Hydro reviewed BC Hydro contracts required by BCTC to enable a smooth transition to a new independent company. Arrangements are in place so that BCTC can exercise all requisite rights and responsibilities under applicable contracts. The applicable contracts were assigned by BC Hydro to BCTC as required for Phase 1 and Phase 2 operations. BCTC established its own independent procurement and contract functions as part of Phase 1 operations for new contractual commitments.

NEW ACCOUNTING POLICIES

Asset Retirement Obligations

Commencing April 1, 2004 BCTC adopted the *Canadian Institute of Chartered Accountants (CICA) Handbook* section 3110 "Asset Retirement Obligations". Under this Handbook section a provision for the future removal and site restoration costs arising on the retirement of capital assets is made where there is a statutory, contractual or legal obligation to retire. When the liability is initially recorded, the costs are capitalized to the carrying cost of the asset. Over time, the liability is accreted to its present value each period and the capitalized cost is amortized on a straight-line basis over the estimated useful life of the asset. The effect of this change was recorded retroactively with restatement of the prior period. During F2005 BCTC recognized accretion expense of $0.1 million.

CRITICAL ACCOUNTING ESTIMATES

The preparation of BCTC's financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of contingencies because the determination of many of these amounts is dependent on future events. BCTC bases its estimates and judgements on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities as well as identifying and assessing its accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgements.

Regulation

From time to time the BCUC may grant interim approval of tariffs based on BCTC's revenue requirement submissions. When the final tariff is approved, material adjustments, including refunds to customers, may be required in the period in which the BCUC decision is received. In addition, the BCUC may set rules on how certain expenses are to be handled. As such, BCTC may be required to adjust certain expenses once a decision is received.

Asset Retirement Obligation

An estimate of the fair value of the liabilities for all legal obligations associated with the retirement of capital assets is made for certain assets. This provision is based on BCTC's best estimate of when the retirement year will occur and the estimate of the fair value at that time.

Employee Future Benefits

BCTC provides employee future benefits to current and retired employees, including pension, group life insurance, health care and long-term disability.

BCTC records employee future benefit costs other than pension on an accrual basis. The accrual costs are determined by an actuarial valuation using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The assumptions were determined by management with reference to the recommendation of BCTC's actuaries.

FUTURE ACCOUNTING CHANGES

Deferral Accounts

Commencing April 1, 2005, BCTC will establish four deferral accounts approved by the BCUC to accumulate over or under recovered revenue or costs for Open Access Transmission Tariff (OATT) related revenue, emergency maintenance costs, cost of market costs, and regulatory expenditures. BCTC requested these four deferral accounts to mitigate the financial risks associated with revenue and cost variances from forecast. The deferral accounts are designed to smooth the impact of these variances by accumulating the difference between the BCUC approved amounts and the actual revenues and costs for recovery through future rates. The table below provides a brief description of each account.

Deferral Accounts	Description
Revenue Deferral	Deferral account to accrue annual variances between forecast and actual OATT revenues
Emergency Maintenance Deferral	Deferral account to capture non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires, or similar events
Cost of Market Deferral	Deferral account to capture all variances between forecast and actual Cost of Market expenditures. Cost of Market Expenditures include: • Congestion management expenses relating to the purchase of operating reserves, transmission location credits, unscheduled flow mitigation and operating agreements between control areas. • Ancillary services expenses BCTC incurs for all generation-based ancillary services that it, in turn, sells to customers on a cost flow-through basis.
Regulatory Expense Deferral	Deferral account to capture the variances between forecast and actual regulatory. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications, and Intervenor costs as approved by the BCUC.

Rate Regulated Operations

The Canadian Institute of Chartered Accountants (CICA) has an active project to review generally accepted accounting principles applicable to enterprises with rate-regulated operations. As part of the project the CICA is reviewing current accounting practices followed by regulated entities and assessing the impact, if any, changes to present generally accepted accounting principles would have on rate regulated entities. Two of BCTC's accounting practices are governed by rate regulation. The two

areas are property, plant and equipment, and, for F2006, deferral accounts. At this time it is uncertain what decision the CICA will reach and therefore BCTC is unable to assess the impact, if any, on the BCTC's financial reporting.

RISKS AND UNCERTAINTIES

Risk Management

BCTC's results are affected by various risks that arise from its operating environment and business practices. Risk management practices are designed to provide reasonable assurance that its business objectives will be met. BCTC's enterprise risk management efforts are overseen by a Risk Management Committee reporting to executive management and by the Audit Committee of the Board of Directors. Additionally, BCTC implemented an enterprise risk management framework in F2005. The framework ensures that the ongoing identification, assessment, monitoring and mitigation of BCTC risks are accomplished systematically. BCTC faces these general types of risks:

Regulatory Risk

The Master Agreement signed between BC Hydro and BCTC requires BC Hydro to fund those capital projects approved by the BCUC. The cost of any capital project constructed at the request of BCTC and funded by BC Hydro for which approval of the BCUC is denied will not be recoverable through BCTC's rates and must be repaid to BC Hydro. BCTC manages this risk through prudent planning, seeking approvals as early as they can be obtained and by minimizing any capital activity in advance of the necessary approvals.

BCTC has received approval from the BCUC for certain deferral accounts in which to record the differences between forecast and actual revenues or costs. BCTC is subject to the same deferral account clearance risks as other regulated companies. BCTC manages this risk by ensuring deferred costs and revenues are prudent and by demonstrating BCTC's prudent action to the BCUC.

Workforce Demographic Risk

Approximately 50 per cent of BCTC's staff will be eligible to retire over the next ten years. BCTC expects the skilled labour market for BCTC's industry to be highly competitive in the future. If BCTC is unable to attract or retain sufficient qualified staff, its operations and financial condition could be adversely affected. BCTC's mitigation strategies include performance and succession planning, apprenticeship, training and knowledge transfer and targeted recruitment programs.

Operating Risks

Risks affecting BCTC's ability to execute operating plans and to attain objectives are operating risks. These risks include reliability, project management, labour, health, safety and environment, compliance and hazards. BCTC mitigates operating risks through the application of policies, processes and standards. The process includes evaluating each capital or maintenance project for regulatory, cost, schedule, scope, performance, utilization, functionality, environmental and safety risks. The risk management plan for each major project must be approved by the Risk Management Committee before the project can proceed.

Failure to plan, operate, manage and maintain transmission assets for reliability, capacity, sustainment, safety and environmental performance may result in equipment failure, loss of reliability and loss of public support. BCTC mitigates this risk by setting performance targets, by establishing and adhering to processes and standards, by risk reduction programs for equipment failure, emergency preparedness and business continuity programs. BCTC also mitigates operational risks by maintaining a comprehensive insurance program.

Environmental, Health, Safety and Security Risk

These risks are managed by applying policies and standards in compliance with government regulations and industry standards. We apply our policies and standards in a systematic fashion to identify, assess, and control environmental, health, safety and security risk with regular reporting to senior management and the Board of Directors.

The Human Resources Committee of the Board of Directors has oversight responsibility for environmental, health and safety matters and is responsible for approving all related policies and practices. Monitoring and reporting programs for environmental, health and safety performance in day-to-day operation, as well as inspection and assessments, are designed to provide assurance that environmental, health and safety regulations and standards are complied with.

Security risks are managed through a security program designed to ensure our personnel, assets, operations and information are protected. Management's Risk Management Committee is responsible for ensuring the effectiveness of the security program. Regular security reporting is provided to the Audit Committee of the Board of Directors.

Labour Risk

Half of BCTC's employees are represented by either the International Brotherhood of Electrical Workers (IBEW) or the Canadian Office and Professional Employees Union (COPE). In the event of a labour dispute, BCTC could face some degree of operational risk related to providing service to customers. BCTC may also face financial risks related to its ability to negotiate collective agreements. Existing collective agreements with the IBEW and COPE expired March 31, 2005. Collective agreements with both unions are currently under negotiation.

Financial Risks

Events that could impact the value and timing of BCTC cash flows and balance sheet are characterized as financial risks. These include credit, interest rate, and currency exchange rate risks. BCTC's exposure to financial risk is mitigated by applying various financial policies and procedures. BCTC implemented a best practice Internal Control Framework as recommended by the public accounting and auditing professions. BCTC ensures compliance with its internal control framework, policies and procedures through an internal audit function which independently reports to the Audit Committee of the Board of Directors.

- Market risk refers primarily to the potential for loss resulting from changes in commodity prices, foreign exchange rates and interest rates. BCTC has no commodity risk and its foreign exchange risk is currently insignificant, although BCTC could in future decide to issue foreign currency denominated debt. BCTC is exposed to fluctuations in interest rates as its maturing long-term debt is refinanced.

- Credit risk is the potential for a counterparty to fail to discharge their obligation, causing a financial loss. BCTC monitors and minimizes credit risk through various techniques including dealing with highly-rated counterparties, limiting total exposure levels with individual counterparties and by various security arrangements, such as letters of credit.

F2006 OUTLOOK

BCTC commenced operation as a fully regulated independent transmission utility effective April 1, 2005 and as a result, the financial outlook is significantly different from its Phase 1 operation. The major changes are as follows:

- BCTC assumed responsibility for the Wholesale Transmission Services Tariff from BC Hydro under its own Open Access Transmission Tariff. Commencing April 1, 2005 BCTC revenue composition will be very different from F2005 as BCTC will earn network as well as point-to-point transmission services revenue directly from its customers. The F2006 interim rates have been approved by the BCUC with the final review and BCUC decision expected sometime in the early summer.

- With the establishment of commercial Service Level Agreements with BC Hydro service providers, BCTC cost structure will include all the asset management and system operation charges from BC Hydro Field Services and Engineering Services. Prior to April 1, 2005, these costs remained with BC Hydro, the transmission asset owner. This enables BCTC to more effectively manage the costs associated with the management, operation and maintenance of the transmission system.

- Under Special Direction No.9, in regulating and fixing rates for BCTC, the BCUC must ensure that those rates allow BCTC to collect sufficient revenue to generate an annual rate of return on deemed equity. The deemed equity component is defined as the ratio of

$$\frac{\text{Actual Equity as at April 1, 2005}}{\text{Actual Debt + Equity as at April 1, 2005}}$$

The financial outlook for Fiscal 2006 based on revenue requirement rate application submitted to the BCUC in March 2005 indicated that BCTC will earn $201.9 million in revenues and $3.6 million in net income.

NUMBER OF EMPLOYEES

At March 31, 2005, BCTC had 311 regular employees (2004 - 293) and 14 temporary employees (2004 - 1).

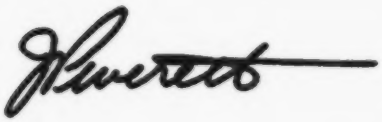
Management Report

The financial statements of British Columbia Transmission Corporation (BCTC) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 6, 2005. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safe-guarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee.

The financial statements as at March 31, 2005, and for the year then ended have been examined by an independent external auditor. The external auditor's responsibility is to express his opinion on whether the financial statements, in all material respects, fairly present BCTC's financial position, results of operations, retained earnings and cash flows in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which follows, outlines the scope of his examination and his opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, comprised of directors who are not employees, meets regularly with the external auditor, the internal auditor and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and open access to the Audit Committee, with and without the presence of management.



Jane Peverett
President and CEO

Elizabeth Hong
Corporate Controller

Vancouver, Canada
May 6, 2005

Report of the Auditor General of British Columbia

To the Board of Directors of the British Columbia Transmission Corporation:

To the Minister of Energy and Mines, Province of British Columbia:

I have audited the balance sheet of the *British Columbia Transmission Corporation* as at March 31, 2005 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Transmission Corporation* as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
May 6, 2005

Statement of Operations

($ in thousands)	For the year ended March 31 2005	From incorporation date of May 2, 2003 to March 31 2004
Revenue		
Service fees and other (Note 8)	$ 93,404	$ 41,756
Investment income	1,384	565
	94,788	42,321
Expenses		
Congestion management costs (Note 13)	758	330
Operations, maintenance and administration	71,579	35,724
Taxes	251	86
Depreciation and amortization	17,263	4,942
Finance charges (Note 14)	1,555	312
	91,406	41,394
Income before One-time Establishment Costs	3,382	927
One-time establishment costs	—	4,936
Recovery from BC Hydro	—	(4,936)
	—	—
Net Income	$ 3,382	$ 927

Statement of Retained Earnings

($ in thousands)	For the year ended March 31 2005	From incorporation date of May 2, 2003 to March 31 2004
Retained Earnings, beginning of period	$ 927	$ —
Net income	3,382	927
Retained Earnings, end of period	$ 4,309	$ 927

See accompanying notes to the financial statements.

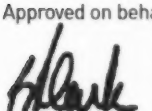
Balance Sheet

as at March 31 ($ in thousands)	2005	Restated (Note 3) 2004
ASSETS		
Current Assets		
Cash	$ —	$ 747
Temporary investments (Note 4)	19,557	4,084
Accounts receivable	3,812	1,273
Prepaid expenses (Note 6)	2,040	963
Due from BC Hydro (Note 8)	1,116	—
	26,525	7,067
Other Receivables (Note 5)	1,361	456
Prepaid Expenses - Long Term (Note 6)	3,949	—
Capital Assets (Note 7)	60,164	60,941
	$ 91,999	$ 68,464
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Bank indebtedness	$ 2,846	$ —
Current portion of obligations under capital lease (Note 18)	93	86
Accounts payable and accrued liabilities	8,325	9,037
Accrued interest	375	39
Deferred revenue	610	205
Due to BC Hydro (Note 8)	—	4,479
Borrowings (Note 11)	—	9,943
	12,249	23,789
Accrued Employee Benefits (Note 9)	17,362	15,814
Asset Retirement Obligation (Note 10)	842	795
Long Term Debt (Note 11)	30,191	—
Obligations Under Capital Lease (Note 18)	7,046	7,139
	67,690	47,537
Shareholder's Equity		
Share capital (Note 12)	20,000	20,000
Retained earnings	4,309	927
	24,309	20,927
	$ 91,999	$ 68,464

Commitments and contingencies (Note 18)

See accompanying notes to the financial statements.

Approved on behalf of the Board:



Bev F. Park
Director

Jane Peverett
President & CEO

Statement of Cash Flows

($ in thousands)	For the year ended March 31 2005	From incorporation date of May 2, 2003 to March 31 2004
Operating Activities		
Net income	$ 3,382	$ 927
Adjustment for non-cash items:		
Depreciation and amortization	17,263	4,942
Other amortization expense included in operations maintenance and administration	1,679	(99)
	22,324	5,770
Accrued employee benefits changes	1,548	726
Working capital changes	(18,125)	18,833
Cash provided by operating activities	5,747	25,329
Investing Activities		
Capital asset expenditures	(13,808)	(60,452)
Tenant inducement payment	—	1,982
Addition to long term prepaid expense	(6,668)	—
Other assets, net of repayment	(905)	(456)
Cash used for investing activities	(21,381)	(58,926)
Financing Activities		
Proceeds from debenture	30,234	—
Issuance of share capital	—	20,000
Accrued employee benefits payment from BC Hydro	6,531	8,557
Asset retirement obligation payment from BC Hydro	778	—
Increase in borrowings	(9,943)	9,943
Principal payments of obligations under capital lease	(86)	(72)
Cash provided by financing activities	27,514	38,428
Increase in cash	11,880	4,831
Cash, beginning of period	4,831	—
Cash , end of period	$ 16,711	$ 4,831
Cash consists of cash and cash equivalents:		
Cash (bank indebtedness)	$ (2,846)	$ 747
Temporary investments	19,557	4,084
	$ 16,711	$ 4,831
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,313	$ 333

See accompanying notes to the financial statements.

Notes to the Financial Statements

for the Periods ended March 31, 2005 and 2004

NOTE 1: NATURE OF OPERATIONS

The British Columbia Transmission Corporation ("the Company" or "BCTC") is a provincial Crown Corporation incorporated on May 2, 2003 under the B.C. *Business Corporations Act* (formerly, the *Company Act*). The Company is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements designated by the Lieutenant Governor in Council (November 20, 2003) pursuant to that Act to plan, operate and manage the electric transmission system of the British Columbia Hydro and Power Authority (BC Hydro). As part of the British Columbia Government's Energy Plan, the Company is established as a separate government-owned corporation that has full responsibility for planning, operating and maintaining the transmission assets to ensure fair, non-discriminatory access to the transmission system. BCTC reports to the Minister of Energy and Mines and is regulated by the British Columbia Utilities Commission (BCUC) effective April 1, 2005.

The Company began operation on August 1, 2003 under the Transition Agreement and the Employee Transfer Agreement. For the period August 1 to November 30, 2003 (Transition Period), the Company operated the transmission business on behalf of BC Hydro on a cost recovery basis. The designation of the Key Agreements effectively terminated the Transition Agreement and the Company began Phase 1 operations under the Master Agreement effective December 1, 2003. The Company earns service fees for providing system operation and asset management and maintenance services to BC Hydro. These service fees are established based on the Company's actual cost of operation and an agreed upon return on equity. On March 8, 2005, BCTC received BCUC approval for a "rollover" of the existing terms and conditions of BC Hydro's Wholesale Transmission Services tariff, on an interim basis, effective April 1, 2005. This enables BCTC to complete its transition to an independent transmission provider as contemplated by the *Transmission Corporation Act* and the Key Agreements and Phase 1 operation will cease effective April 1, 2005.

Due to economic dependence of the Company on BC Hydro during the Phase 1 period, the Company's accounts, as set out in these financial statements, are consolidated with the accounts of BC Hydro.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in Canada (GAAP) and are expressed in Canadian dollars.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash and temporary investments, with original maturity dates of less than 90 days.

Temporary Investments

Temporary investments consist of units in money market pooled funds and pooled bond funds which invest in government securities or securities guaranteed by government. Units in the pooled funds are valued at the lower of cost and market.

Capital Assets

Capital assets are recorded at cost. During the construction of new assets, direct costs plus a portion of overhead costs and related financing costs are capitalized. Construction is transferred to capital assets in service when the asset is substantially complete. Depreciation commences in the month after an asset is put into service. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	45 years
Computer hardware and software	3 – 10 years
Communication equipment	7 – 15 years
Furniture and equipment	5 – 40 years
Leasehold improvements	10 years
Structures and improvements	25 – 50 years

Notes to the Financial Statements (continued)

for the Periods ended March 31, 2005 and 2004

Asset Retirement Obligations

A provision for the future removal and site restoration costs arising on the retirement of capital assets is made where there is a statutory, contractual or legal obligation upon retirement. When the liability is initially recorded, the costs are capitalized to the carrying cost of the asset. Over time, the liability is accreted to its present value and the capitalized cost is amortized on a straight-line basis over the estimated useful life of the asset.

Impairment of Long-lived Assets

Capital and long-term prepaid expenses (long-lived assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Asset values recorded under capital leases are amortized on a straight-line basis over estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Deferred Revenue

Deferred revenue consists principally of amounts received under Preliminary Study Agreements to investigate the requirements for interconnecting the independent power generation facilities to the Transmission System. The amounts received are deferred and included in income when earned.

Revenue Recognition

Revenue is recognized on an accrual basis as services are provided. BCTC earns service fee revenue based on the actual cost of service plus a return on equity (13.9%). Revenue is earned through the provision of services to BC Hydro for system operation, asset management and maintenance, generation dispatch, and distribution operations.

Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Pension and Other Retirement Benefit Plans

The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 11 years.

Use of Estimates

The Company's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation used in 2005.

NOTE 3: CHANGE IN ACCOUNTING POLICY

Effective April 1, 2004, the Company adopted the new recommendations of the CICA Handbook Section 3110, Asset Retirement Obligations. The balance sheet has been restated, but there was no significant impact on the Statement of Operations for 2004 (see Note 10).

The impact on the Company's balance sheet as at April 1, 2004 is as follows:

($ in thousands)	
Long-lived asset - ARO cost	$ 142
Receivable from BC Hydro	778
Asset retirement obligation liability	(795)
Accumulated depreciation - ARO cost	(125)

NOTE 4: TEMPORARY INVESTMENTS

($ in thousands)	2005	2004
General Account		
Money market unitized fund	$ 22	$ 4,084
Short term bond unitized fund	10	–
Index government bond units	3,675	–
	3,707	4,084
Benefits Account		
Money market unitized fund	9,439	–
Short term bond unitized fund	3,178	–
Index government bond units	3,233	–
	15,850	–
	$ 19,557	$ 4,084

Temporary investments were written down by $102,078 to $19,556,847, the market value of the securities at March 31, 2005.

NOTE 5: OTHER RECEIVABLES

($ in thousands)	2005	2004
Mortgage receivable		
Current portion	$ 25	$ 20
Long term portion	822	436
Total mortgage receivable	847	456
Other long term receivable	495	–
Deferred debt costs	19	–
	$ 1,361	$ 456

The Company has an Employee Housing Assistance Program, which grants 5-year housing loans to employees. At March 31, 2005, there were four employee mortgages outstanding. These loans were issued at market rates and are secured by a second mortgage registered against their property. At the expiry of the mortgage term, the employees have the option to renew the mortgage for an additional 5-year term.

Other long term receivable consists of funding made to Grid West (formerly RTO West) pursuant to a funding agreement for the period ending March 31, 2005. Pursuant to the Master Agreement with BC Hydro, BCTC assumed all rights of BC Hydro as a "filing utility" in the Grid West development process and will assume the rights and obligations, including the funding

obligation of BC Hydro under the RTO West Funding Agreement effective December 1, 2003. The funding under this agreement is repayable with interest on the earlier of: (a) the date Grid West obtains sufficient third party financing, or (b) the date set for the commencement of transmission services by Grid West. The interest on the funding loaned to Grid West is based on the rate established by the Federal Energy Regulatory Commission for refunds which ranged from 4.0% to 4.75% during F2005.

NOTE 6: PREPAID EXPENSES

The long term prepaid expense balance as at March 31, 2005 relates to an initial asset utilization fee paid to BCH Services Asset Corporation (SAC), a subsidiary of BC Hydro, pursuant to an agreement of key principles and terms with BC Hydro, upon which the current Master Services Agreement will be split between Accenture Business Services and BC Hydro and BCTC respectively. This fee is amortized over the utilization period of the related SAC asset, which is estimated to be 6.7 years commencing April 1, 2004.

($ in thousands)	2005	2004
Long term prepaid expense - beginning of period	$ –	$ –
Initial Asset utilization fee payment	6,668	–
Less: Amortization	(995)	–
Expensed due to non future usage	(876)	–
	4,797	–
Less: Short term portion	(848)	–
Long term prepaid expense - end of period	$ 3,949	–

NOTE 7: CAPITAL ASSETS

2005 ($ in thousands)	Cost	Accumulated Depreciation	Total	Composite Depreciation Rate
Buildings	$ 6,707	$ (748)	$ 5,959	2.2%
Buildings under capital lease	7,297	(351)	6,946	3.6
Computer hardware and software	29,212	(12,431)	16,781	27.0
Communication equipment	24,977	(8,022)	16,955	9.8
Furniture and equipment	4,513	(293)	4,220	4.5
Leasehold improvements	1,586	(158)	1,428	10.0
Structures and improvements	205	(12)	193	3.4
Asset Retirement Costs	142	(129)	13	2.2
Contribution in aid of construction	(144)	41	(103)	10.0
Tenant inducement	(1,982)	300	(1,682)	10.0
Net capital assets in service	72,513	(21,803)	50,710	
Unfinished construction	9,454	–	9,454	
Total	$ 81,967	$ (21,803)	$ 60,164	

2004				
Buildings	$ 6,422	$ (187)	$ 6,235	2.2%
Buildings under capital lease	7,297	(88)	7,209	3.6
Computer hardware and software	20,819	(2,609)	18,210	33.2
Communication equipment	23,967	(1,925)	22,042	9.7
Furniture and equipment	3,908	(78)	3,830	4.9
Leasehold improvements	1,226	(62)	1,164	10.0
Structures and improvements	330	(4)	326	3.0
Asset Retirement Costs	142	(125)	17	–
Contribution in aid of construction	(144)	11	(133)	10.0
Tenant inducement	(1,982)	99	(1,883)	10.0
Net capital assets in service	61,985	(4,968)	57,017	
Unfinished construction	3,924	–	3,924	
Total	$ 65,909	$ (4,968)	$ 60,941	

NOTE 8: TRANSACTIONS WITH RELATED PARTIES

(a) BC Hydro pays the Company for the cost of system operation and asset management services and other services including an allowed return on equity.

($ in thousands)	2005	2004
BC Hydro		
System operation and asset management revenue	$ 88,345	$ 38,309
Distribution services revenue	2,616	1,744
Generation dispatch revenue	1,047	1,259
Other	1,137	425
	93,145	41,737
Other	259	19
Total revenue	$ 93,404	$ 41,756

(b) Pursuant to agreements between the Company and BC Hydro, the Company acquired capital assets from BC Hydro in October 2004 for $2,382,000 (2004 - $56,566,000), BC Hydro's net book value for these assets at the date of transfer.

(c) During the year ended March 31, 2005, BC Hydro has incurred certain costs on behalf of BCTC. Most of these costs relate to services provided by Accenture Business Services (ABS) to BCTC under ABS's Master Services Agreement with BC Hydro. For the year ended March 31, 2005, of the costs paid by BC Hydro on behalf of BCTC, $12,767,000 (2004 - $9,416,000) were included in BCTC's operations, maintenance and administration expenses and $452,000 included in Congestion management costs. An additional $2,625,000 was paid by BC Hydro on behalf of the Company and included in BCTC's capital assets. The amounts outstanding to BC Hydro at March 31, 2005 are summarized in Note 8(f) below.

(d) Included in the operations, maintenance and administration expense for the year ended March 31, 2005 is $3,867,000 (2004 - $ 964,000) for services purchased from BC Hydro and subsidiaries and $4,166,000 (2004 - $3,480,000) of labour overhead cost recoveries from BC Hydro. The amounts due from BC Hydro at March 31, 2005 are summarized in Note 8(f) below.

(e) In December 2003, the Company entered into lease contracts with BC Hydro for control centre buildings and land (see Note 18). Two building leases valued at BC Hydro's net book value of $7,297,000 are accounted for as capital leases. These amounts have been included in the financial statements as capital assets and obligations under capital lease. At March 31, 2005, the balance of the obligations under capital lease is $93,000 (2004 - $86,000) current and $7,046,000 (2004 - $7,139,000) non-current. Included in finance charges is $528,000 (2004 - $133,000) of interest expense relating to the capital leases. Other land and building leases with BC Hydro are accounted for as operating leases. Included in the operations, maintenance and administration expense is $200,000 (2004 - $69,000) for these operating leases.

(f) The amounts due from (to) BC Hydro as at March 31 are as follows:

($ in thousands)	2005	2004
Revenue from BC Hydro:		
Service fee receivable from (refundable to) BC Hydro	$ 3,283	$ (2,637)
Distribution services receivable	233	–
Miscellaneous revenue	169	30
BC Hydro loading charges refund	1,964	–
Labour overhead cost recoveries from BC Hydro	694	3,681
Wholesale Transmission Services billings for BC Hydro	(1,842)	(976)
Operating costs paid by BC Hydro on behalf of BCTC	(1,679)	(12,137)
Capital asset acquisition	(1,181)	1,236
Services performed by BC Hydro and subsidiaries	(518)	(610)
Employee benefits for transferred employees	(128)	6,814
Other	121	120
Total due from (to) BC Hydro	$ 1,116	$ (4,479)

Notes to the Financial Statements (continued)

for the Periods ended March 31, 2005 and 2004

NOTE 9: ACCRUED EMPLOYEE BENEFITS

($ in thousands)	2005	2004
Registered pension plan (see Note 16)	$ (219)	$ (76)
Supplemental pension plan	482	337
Post-retirement benefit costs (see Note 16)	7,744	6,999
Time bank liabilities	9,355	8,554
	$ 17,362	$ 15,814

Of the accrued employee benefits balance at March 31, 2005, $15,088,000 relates to employee benefits paid by BC Hydro to BCTC and set aside in temporary investments to meet the transferred obligations (see Note 4).

NOTE 10: ASSET RETIREMENT OBLIGATION

On April 1, 2004, the Company recorded an asset retirement obligation (ARO) for the system control centre facility as it is legally required to remove the facility at the end of its useful life (estimated to be fiscal 2008) and to restore the site to its original condition in accordance with the lease agreement. The system control centre facility was placed in service by BC Hydro in 1974. This asset was transferred to the Company on December 1, 2003 under the Asset Lease, License and Transfer Agreement. The ARO liability for this facility is estimated to be $1,000,000 at the end of Fiscal 2008, with timing of expenditures expected to commence in April 2009. The present value of this ARO liability, calculated to be $795,000, was recorded in April 2004 using a credit adjusted risk free rate of 5.9%. BC Hydro has paid the company $778,000 for its share of the ARO liability.

For the year ended March 31, 2005, depreciation expense for the ARO asset is $4,000.

($ in thousands)	2005	2004
ARO liability – beginning of period	$ 795	$ —
ARO liability transfer	—	795
Accretion expense	47	—
ARO liability – end of period	$ 842	$ 795

NOTE 11: LONG TERM DEBT

In May 2004, the Company issued a debenture, series BCTR-CD-6(1) to the Province of British Columbia with a face value amount of $30,000,000, a coupon rate of 4.3% and an effective interest rate of 4.1%. The balance at March 31, 2005 consists of the face value of the debenture, $30,000,000 and $191,000 of unamortized premium. The debenture is due on December 18, 2008 with interest payable semi-annually in June and December of each year.

The Company had short term borrowings of $9,943,000 at March 31, 2004, with a remaining term to maturity of 26 days. Under the terms of an agreement with the Province of British Columbia, the Company is authorized to borrow up to $25,000,000 under the short-term commercial paper program. Interest is charged at the prevailing money market rates. In addition, the Company has available a $5,000,000 demand revolving line of credit with a chartered bank.

NOTE 12: SHARE CAPITAL

Authorized Share Capital

The Company is authorized to issue 10,000,000 common shares without par value.

Common Shares	2005		2004	
	Shares	Amount	Shares	Amount
Issued at incorporation	1	$ 1	1	$ 1
Issued pursuant to Subscription Agreement for cash consideration	1	20,000,000	1	20,000,000
Issued and Outstanding	2	20,000,001	2	20,000,001

The Province of British Columbia owns both common shares.

NOTE 13: CONGESTION MANAGEMENT COSTS

Congestion management expenses include the purchase of operating reserves, transmission locational credits, unscheduled flow mitigation, and operating agreements between control areas. These costs are incurred to maximize the transmission capacity available to be contracted by customers.

NOTE 14: FINANCE CHARGES

($ in thousands)	2005	2004
Interest on debenture	$ 1,054	$ —
Interest on capital leases	528	133
Other	234	219
Less: Interest capitalized to construction	(261)	(40)
	$ 1,555	$ 312

NOTE 15: FINANCIAL INSTRUMENTS

At March 31, 2005, the Company's financial instruments include temporary investments, accounts receivable, other receivable, bank indebtedness, accounts payable and accrued liabilities, accrued interest, due to BC Hydro, borrowings, accrued employee benefits, asset retirement obligation liability, long-term debt, and obligations under capital lease. The fair values of the Company's financial instruments approximate carrying amounts.

NOTE 16: EMPLOYEE BENEFIT PLANS

The Company provides a defined benefit registered pension plan to all employees. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. The Company contributes amounts as prescribed by an independent actuary towards the cost of providing basic benefits under the plan.

In addition, the Company provides a supplementary pension arrangement that provides additional pension benefits to employees to the extent that their benefits under the registered pension plan are constrained by the maximum pension limits under the *Income Tax Act*.

The Company provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least ten years of service and qualify to receive pension benefits.

The Company has measured its accrued benefit obligations and the fair value of plan assets for accounting purposes as at February 28, 2005. The most recent actuarial valuation of the pension plans for funding purposes was as of August 1, 2003, prepared by Mercers Human Resource Consulting.

The Company's Pension Plan received an asset transfer from the BC Hydro Pension Plan on April 29, 2005 in relation to the 151 employees who elected to transfer their accrued pension as at August 1, 2003 from the BC Hydro Pension Plan to the Company's Pension Plan. The amount of the transfer, including interest, was $25,911,970. In addition, a cash payment from BC Hydro in the amount of $594,065 was also contributed into the BCTC Plan. In total, the Plan assets increased by $26,506,035. The Company's actuary has determined the value, on an accounting basis, of the corresponding liabilities as at April 29, 2005 to be $26,606,000.

On April 29, 2005, the Company received a cash payment to its general revenue account from BC Hydro in recognition of assuming benefits in respect of the Supplementary Plan. The Company's actuary has determined the value of the Supplementary Plan liabilities as at April 29, 2005 to be $1,436,300.

Notes to the Financial Statements (continued)

for the Periods ended March 31, 2005 and 2004

Elements of defined benefit costs

	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
Current service cost				
Basic benefits	$ 1,823	$ 1,082	$ 272	$ 173
Indexing benefits	232	125	—	—
Interest cost	307	79	477	295
Actual return on plan assets	(135)	(76)	—	—
Actuarial loss (gain) on accrued benefit obligation	318	170	985	87
Costs arising in the period	2,545	1,380	$ 1,734	$ 555
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	(119)	36	—	—
Actuarial gain	(318)	(170)	(985)	(87)
Net periodic pension cost recognized	$ 2,108	$ 1,246	$ 749	$ 468

Weighted-average assumptions for expense

	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
Discount rate	6.25%	6.75%	6.5%	6.75%
Expected long-term rate of return on plan assets	7.00%	7.00%	—	—
Rate of compensation increase	3.50%	3.50%	3.5%	3.5%

Weighted-average assumptions for disclosure

	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
Discount rate	6.00%	6.25%	6.0%	6.5%
Rate of compensation increase	3.50%	3.50%	3.5%	3.5%

Change in accrued benefit obligation

	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
Accrued benefit obligation at beginning of period	$ 2,437	$ —	$ 7,086	$ 6,281
Obligation assumed from BC Hydro	—	255	—	—
Current service cost				
Basic benefits	1,823	1,082	272	173
Indexing benefits	232	125	—	—
Interest cost	307	79	477	295
Actual return on plan assets – indexing benefits	21	11	—	—
Employee contributions				
Basic benefits	1,099	590	—	—
Indexing benefits	232	125	—	—
Benefits paid	(59)	—	(4)	—
Adjustment for BC Hydro contribution towards actuarial loss	—	—	—	250
Actuarial loss	318	170	985	87
Accrued benefit obligation at end of period	$ 6,410	$ 2,437	$ 8,816	$ 7,086

Change in plan assets

	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
Fair value of plan assets at beginning of period	$ 2,028	$ —	$ —	$ —
Actual return on plan assets				
Basic benefits	135	76	—	—
Indexing benefits	21	11	—	—
Company contributions				
Basic benefits	1,889	1,101	4	—
Indexing benefits	232	125	—	—
Employee contributions				
Basic benefits	1,099	590	—	—
Indexing benefits	232	125	—	—
Benefits paid	(59)	—	(4)	—
Fair value of plan assets at end of period	$ 5,577	$ 2,028	$ —	$ —

Reconciliation of funded status to accrued benefit asset

	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
Funded Status - excess (deficit) at end of period	$ (833)	$ (409)	($8,816)	($7,086)
Employer contributions after measurement date	—	14	—	—
Unamortized net actuarial loss	570	134	1,072	87
Accrued benefit liability	$ (263)	$ (261)	($7,744)	($6,999)

Registered Plan assets by asset category

	2005	2004
Equity securities	50%	43%
Debt securities	44%	43%
Cash and short term	6%	14%
Total	100%	100%

NOTE 17: BC HYDRO INDEMNITY

For the year ended March 31, 2005, (Phase 1), BC Hydro was responsible for and indemnifies the Company for losses incurred by the Company in excess of $50 million in connection with any of the following:

(a) any claim arising out of any act or omission, negligence or willful misconduct by the Company or Company contractor;

(b) any failure of the Company or any Company contractor to comply with the terms and conditions of the Transmission Property Rights or with any Laws, including Environmental Laws;

(c) any release of hazardous materials from the assets acquired or leased by the Company from BC Hydro;

(d) any release of hazardous materials from the transmission system caused by the Company or Company contractor;

(e) any claim for personal injury or damage relating to electric and magnetic fields (EMF) emanating from the transmission system as it existed on December 1, 2003, to the extent the Company failed to act as a prudent utility, and EMFs emanating from additions and extensions to the transmission system; and

(f) any failure by the Company or Company contractor to comply with BC Hydro's First Nations policies.

To date, there have been no indemnity claims made by the Company.

NOTE 18: COMMITMENTS AND CONTINGENCIES

(a) The Company has land and buildings under capital and operating leases with BC Hydro. As well, the Company has entered into agreements with BC Hydro to purchase engineering and field services. The future minimum payments under capital and operating leases, and service agreements are approximately as follows:

($ in thousands)	Capital Leases	Operating Leases	Service Agreements
2006	$ 614	$ 200	$ 76,200
2007	614	200	42,850
2008	614	200	42,850
2009	614	145	42,850
2010	614	36	42,850
2011 and subsequent years	13,279	770	85,700
Total future minimum payments	16,349	$ 1,551	$ 333,300
Less imputed interest	(9,210)		
Capital lease liability	$ 7,139		

BCTC has entered into an agreement of key principles and terms with BC Hydro, upon which the current ABS Master Services Agreement will be split between ABS and BC Hydro and BCTC respectively. BCTC will be allocated a portion of BC Hydro's minimum aggregate spend under the current ABS Master Services Agreement. As of March 31, 2005, the amount of minimum aggregate spend allocated to BCTC has not been finalized.

(b) The future minimum payments on the ten-year lease for Bentall office premises are approximately as follows:

($ in thousands)	
2006	$ 1,472
2007	1,536
2008	1,536
2009	1,586
2010	1,636
2011 to 2014	5,729
	$ 13,495

(c) The Company has entered into a funding agreement with Grid West in the amount of US$409,519. The contract shall remain in effect until the earliest of the following: mutually agreed early termination date, effective date of Funding Agreement, and December 31, 2005.

NOTE 19: SUBSEQUENT EVENTS

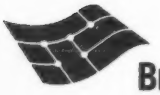
(a) Deferral Accounts

On March 8, 2005, BCTC received BCUC approval for a "rollover" of the existing terms and conditions of the current BC Hydro's Wholesale Transmission Services tariffs, on an interim basis, effective April 1, 2005. This enables BCTC to complete its transition to an independent transmission provider as contemplated by the *Transmission Corporation Act* and the Key Agreements and Phase 1 operation will cease effective April 1, 2005. As of April 1, 2005 the Company became a rate-regulated entity and adopted accounting policies under Canadian generally accepted accounting principles unique to rate-regulated entities.

Commencing April 1, 2005 the Company will be maintaining BCUC approved deferral accounts to accumulate over or under recovered revenue or costs for Open Access Transmission Tariff (OATT) related revenue, emergency maintenance costs, cost of market costs, and regulatory expenditures. The deferral accounts accumulate the difference between the BCUC approved amounts and the actual revenues and costs for recovery from customers through future rates.

(b) Rate Regulated Operations

The Canadian Institute of Chartered Accountants (CICA) has an active project to review generally accepted accounting principles applicable to enterprises with rate-regulated operations. As part of the project, the CICA is reviewing current accounting practices followed by regulated entities and assessing the impact, if any, changes to present generally accepted accounting principles would have on rate regulated entities. Two of the Company's accounting practices are governed by rate regulation: property, plant and equipment, and deferral accounts. At this time it is uncertain what decision the CICA will reach and therefore the Company is unable to assess the impact, if any, on the Company's financial reporting.



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